VCREDIT Holdings Limited
維信金科控股有限公司

(registered by way of continuation in the Cayman Islands with limited liability)

Stock Code: 2003

ANNUAL REPORT 2019

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Sai Wang Stephen
(Chief Executive Officer)
Mr. Liu Sai Keung Thomas
(Chief Operating Officer)

Non-Executive Directors

Mr. Ma Ting Hung *(Chairman)*
Ms. Shen Jing
Mr. Yip Ka Kay

Independent Non-Executive Directors

Mr. Chen Penghui
Dr. Seek Ngee Huat
Mr. Wu Chak Man

AUDIT COMMITTEE

Mr. Wu Chak Man *(Chairman)*
Mr. Chen Penghui
Mr. Yip Ka Kay

REMUNERATION COMMITTEE

Mr. Chen Penghui *(Chairman)*
Mr. Liu Sai Wang Stephen
Mr. Wu Chak Man

NOMINATION COMMITTEE

Mr. Ma Ting Hung *(Chairman)*
Dr. Seek Ngee Huat
Mr. Wu Chak Man

AUTHORIZED REPRESENTATIVES

Mr. Ma Ting Hung
Mr. Cha Johnathan Jen Wah

COMPANY SECRETARY

Mr. Cha Johnathan Jen Wah

REGISTERED OFFICE

TMF Group (Cayman) Ltd
2nd Floor
The Grand Pavilion Commercial Center
802 West Bay Road
P.O. Box 10338
Grand Cayman KY1-1003
Cayman Islands

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PRINCIPAL PLACE OF BUSINESS IN PRC

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Shanghai 200085
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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The Grand Pavilion Commercial Center
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

HONG KONG LEGAL ADVISER

Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower, The Landmark
15 Queen's Road Central, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Suzhou Yuanqu Branch

STOCK CODE

2003

WEBSITE

http://www.vcredit.com

The Chairman's Statement

As at the date of this report, we are in the midst of combating the COVID-19 coronavirus outbreak and I would like to take this opportunity to express my sincerest hope that all are taking the necessary precautions to be safe and stay healthy.

We have continued to implement our business focused on our three pillar strategy based around growth, efficiency and talent to maintain our position as a leading player at the forefront of China's consumer credit finance industry.

In 2019, we have demonstrated unequivocally our ability to operate our business from a pure online platform and from which we are now seamlessly providing our tailored credit product offerings online supported by our proprietary cutting-edge credit assessment and risk management technology.

Our successful move to a pure online business model has enabled our Company to improve efficiencies and allocate more resources into our continuing research and development and collaborations with partners to refine and enhance our proprietary risk evaluation and management technology and further develop our talent pool. Significantly through these efforts, we have on our own and in collaboration with partners developed and adopted new customer acquisition algorithms to expand our customer base and refine our capabilities to differentiate risk between new and repeat borrowers which allows for better risk management and improved tailoring of our credit products.

I am pleased to see we have continued to strengthen our relationships with existing partners as well as seeking out new collaborations. During 2019, Chengdu Vcredit Jiaozi Digital Technology Co., Ltd. (成都維信交子數字科技有限公司) was established with Chengdu Financial DreamWorks Investment Management Co., Ltd. (成都金融夢工場投資管理有限公司), who are supported by the municipal government and Chengdu Branch of the People's Bank of China, to design risk management solutions to serve small and medium sized micro-finance enterprises and we worked with entities including Beijing Baidu Wangxun Technology Co., Ltd (北京百度網訊科技有限公司) in developing big data incorporated borrowers credit scores to improve our credit decisions.

With regulatory scrutiny increasing, the Chinese consumer credit market has seen further consolidation with more P2P platform collapses during the year, restrictions imposed on certain debt collection practices and use of personal information and data and a flight by market participants to institutional funding. Regulatory changes are not unfamiliar in our business and raise challenges for all participants. Our business is predicated on institutional funding and regulatory compliance. We added fifteen new institutional funding partners in 2019, raising to forty-five our total number of institutional funding partners with whom we collaborate and support our business. We will continue our efforts in this sphere, as we will in working within the changing regulatory framework that is building up around the Chinese consumer credit market. We believe these are beneficial developments for the industry and because of our compliance-centric business model, we are well positioned to deal with the challenges that they present.

The COVID-19 coronavirus faced by all presents added further complications and challenges, but our management is tasked with the need to monitor and adjust our business model to the additional complexities and heightened risks and volatilities it brings to our operations and the market and economy as a whole.

I am confident we have built a solid foundation from which we are able to grow and retain our relevance as a leading online consumer credit finance player.

I would like to take this opportunity, on behalf of the Board of Directors and the Company, to express our appreciation to the dedication of our employees and support of our business partners, funding partners and shareholders.

Ma Ting Hung
Chairman

Hong Kong, March 23, 2020

I am pleased to present the annual report of the Company for the year ended December 31, 2019. During the year, we successfully repositioned our business to become a pure online consumer finance lender. With our targeted product and marketing strategies, advanced risk and technology capabilities, long-standing partnerships with licensed financial institutions, we achieved stable growth in business performance against the backdrop of challenging market conditions in the regulatory evolvement.

OPERATIONAL PERFORMANCE

The resilience of business growth demonstrated the effectiveness of our business strategy as a pure online consumer lender. In 2019, our total loan origination volume of online credit products recorded RMB33.75 billion, representing an 85.9% increase comparing to that of 2018. Meanwhile, the outstanding loan balance of online credit products exceeded RMB17.48 billion as at December 31, 2019, representing an 83.8% increase compared to RMB9.51 billion as at December 2018.

We continued investing in research and development to develop cutting-edge technology to boost the accessibility of our products to our customers. As a result, our comprehensive marketing algorithms bolstered the expansion of our customer base. In 2019, the number of registered users increased by 40.4% to 83.8 million, compared to 59.7 million as at December 2018. In the meantime, our collaborations with business partners for more advanced multifaceted risk models help us better identify targeted customers and improve our risk management processes.

Keep fostering our long-term partnerships with licensed institutions has always been our priority. By the end of 2019, we have carried out cooperation with 45 licensed funding partners in various aspects, including a strategic agreement with a national joint-stock commercial bank to expand our smart consumer finance ecosystem. Our funding partners value our core capabilities in customer acquisition and complementary risk assessment and have been supportive of our strategic focus on balancing facilitation and trust funding structures. In 2019, our total loan origination volume consummated through credit-enhanced and pure loan facilitation structures amounted to RMB18.12 billion or 53.7% of total loan origination volume, representing a 157.7% increase in loan origination volume compared to that of 2018.

We keep our strategic focus on acquiring and retaining talents. Following the appointment of Mr. Gong Yisheng as our Chief Risk Officer in June 2019, we further calibrated the leadership across various teams throughout the year. These changes have streamlined our organization structure and further enhanced our strategy execution in technology and risk management operations.

We strived to maintain our asset quality at a stable level despite unexpected market volatilities inflicted by regulatory changes in 2019. We were able to navigate through the unstable third-party data services during the second half of the year by strengthening our scorecard methodology through joint modeling only with regulatory compliant third parties. Our first payment delinquency ratio returned to a targeted level of around 2.0% in the last quarter in spite of a spike in the third quarter, demonstrating the effectiveness of our risk control policies.

FINANCIAL PERFORMANCE

Operating profit was up 51.9% at RMB154.4 million compared with 2018 and adjusted operating profit grew by 7.2% to RMB457.8 million. Adjusted net profit rose by 24.5% to RMB368.2 million, reflecting our effective business strategies and improving operating efficiency.

Our total income increased by 41.2% to RMB3,864.4 million for the year ended December 31, 2019. The surge in total income was directly attributable to the growth in loan origination volume through our credit-enhanced and pure loan facilitation business and corresponding increase in loan facilitation service fees which soared by 362.3% to RMB1,247.4 million. With the disposal of our legacy online to offline business platform in the second half of 2018 and strategic balancing between trust funding and loan facilitation structures, our interest type income from direct lending and trust lending structures decreased by 9.8% to RMB2,642.1 million.

We are committed to continuously streamlining our business and investing in areas to ensure a sustainable, cost-effective business. Our operating expenses excluding share-based compensation expenses and non-recurring items, decreased by 9.3% to RMB1,036.1 million during the year.

To realize a more institutional capital structure, we became the first online Chinese lender successfully issuing US$100 million 2-year senior notes, which were listed on The Stock Exchange of Hong Kong Limited, in June 2019.

OUTLOOK AND STRATEGIES

The industry landscape of the consumer lending sector has gone through significant changes in 2019. The promulgation of Circular on the Pilot Project of Transforming Online Lending Information Agencies into Small Loan Companies (“關於網絡借貸信息中介機構轉型為小額貸款公司試點的指導意見” or “Circular 83” on November 27,2019) put forward more specific requirements on the access standards and capital structure of qualified players. P2P platforms have accelerated their exits under the current regulatory framework, rendering a transfer from the retail-funded model to pure institutional funding model. Further market consolidations by leading players are anticipated in the future. In the meantime, the crackdown on unauthorized big data services and the clean-up of unlawful collection practices by the government benefited the development of the industry in the long run. With the launch of the second generation China Credit Reference Center system in 2020, we are able to obtain more comprehensive borrower profiles given our direct, real time, and officially authorized read-and-write access to the PBOC credit database, which help us make more well-rounded credit decisions. We believe players that have genuine technological capacities and maintain high compliance standards will stand out among crowds, and we are confident with our ability to continue to evolve our proprietary technology and foster partnership with institutions as the consumer finance industry matures.

Since the beginning of 2020, the coronavirus outbreak has spread across China and beyond, causing further uncertainties and unpredictable impacts on the macroeconomy. We continue to monitor the situation very closely. We will do all we can to support our customers and staff through this difficult time.

Our management remains confident with the potential of China‘s consumer finance market. We will continue to develop our competitive advantages and explore new opportunities to further improve the Company’s efficiencies. With our striving team and technology-centric strategy, we are driven to generate continuous growth and create sustainable values for our customers, stakeholders and the broader community.

Sincerely,

Liu Sai Wang Stephen
Executive Director and Chief Executive Officer

Hong Kong, March 23, 2020

FINANCIAL HIGHLIGHTS

	For the year ended December 31,		
	2019	2018	Change
	RMB million	*RMB million*	
Total income	**3,864.4**	2,736.6	41.2%
Interest type income	**2,642.1**	2,930.3	-9.8%
Less: interest expenses	**(862.2)**	(974.7)	-11.6%
Loan facilitation service fees	**1,247.4**	269.8	362.3%
Other income	**837.1**	511.2	63.8%
Operating Profit	**154.4**	101.6	51.9%
Net Profit/(Loss)	**64.8**	(1,027.0)	106.3%
Non-IFRS Adjusted Operating Profit(1)	**457.8**	427.1	7.2%
Non-IFRS Adjusted Net Profit(2)	**368.2**	295.8	24.5%

Notes:

(1) Non-IFRS Adjusted Operating Profit is defined as operating profit for the year ended December 31, 2019 (the "**Year**") excluded share-based compensation expenses and listing expenses. For more details, please see the section headed "Management Discussion and Analysis — Non-IFRS Measures".

(2) Non-IFRS Adjusted Net Profit is defined as net profit for the Year excluded fair value loss of convertible redeemable preferred shares and share-based compensation expenses. For more details, please see the section headed "Management Discussion and Analysis — Non-IFRS Measures".

BUSINESS REVIEW AND OUTLOOK

As a leading independent player at the forefront of China's consumer finance industry, the Company has continuously focused on accessibility and inclusivity. We strive to provide unrivalled user experience to underserved borrowers through our cutting-edge technology and proven risk management capabilities. Positioned at the customer interface of the consumer finance value chain, we are committed to cultivating a responsible and compliance-centric consumer finance universe, while encouraging our talent base to constantly innovate in operations and technological development in order to benefit our business profitability and more importantly, improve our customer experiences.

The Year saw a significant tightening-up of the regulatory framework for China's consumer finance industry, an acceleration in the clampdown on P2P platforms and government authorities raising the qualification requirements and codes of conduct of industry participants that are becoming almost exclusively funded by licensed financial institutions. These developments are pushing China's consumer finance market participants to ensure and value the legitimacy of their funding sources, data privacy and all-in borrowing costs. Our long-standing track record of working with licensed financial institutions enables us to maintain a high standard of business setup that can withstand regulatory changes and challenges. We added 15 more institutional funding partners with diverse backgrounds during the Year to our closely linked institutional funding platform which is critical to the sustainability and expansion of our business. We will continue to foster and optimize cooperation with licensed institutions and explore diversified cooperation scenarios to achieve a win-win situation.

In 2019, we continued to explore new collaborations for joint modeling with leading Chinese internet companies. We strengthened our credit assessment system by consolidating scorecards jointly built with regulatory compliant third parties. This new comprehensive scorecard methodology effectively enables us to differentiate risk between new and repeat borrowers, thereby enhancing our risk underwriting ability vis-a-vis prospective borrowers. For example, we have been working closely with Beijing Baidu Wangxun Technology Co., Ltd. (北京百度網訊科技有限公司) ("**Baidu**") in developing big data incorporated borrowers' credit scores which assist us in making credit decisions. These scores have the potential to be commercially licensed to other financial institutions and third parties to the financial benefit of the Company and Baidu, respectively.

Business Highlights

In 2019, we achieved robust growth, underpinned by our strategy to shift completely to a pure online consumer finance platform while transitioning to a more balanced funding split between direct lending, trust lending and loan facilitation.

Our highly automated and intelligent credit and risk management and transaction processing systems allow us to market products which gain popular acceptance by the market. Additionally, our newly established customer acquisition algorithm has further bolstered our customer reachability, and we added 40.4% new registered users during the Year, allowing us to further boost our nationwide recognition and gain market share.

During the Year, we were confronted by an industry which saw the fall-out from the winding-down of collapsed P2P platforms, disruptions in third-party data services and tightening of debt collection practices, all of which increased the credit risks of our business. We addressed these adverse impacts by collaborating with leading internet companies to jointly build more sophisticated risk assessment models, which allowed us to better differentiate between first-time and repeat borrowers. Under such fluctuating market conditions, we believe our technological developments will help us to better manage risk and reduce volatilities that we encounter in our business. Since the beginning of 2019, we have also actively developed relationships with a number of institutional funding partners. During the Year, in order to expand our consumer finance ecosystem, we have successfully established mutually beneficial cooperation with 15 new institutional funding partners with diversified backgrounds, including commercial banks, consumer finance companies and trusts. With our institutional funding partners, which now number 45 and which we expect to grow, we aim to leverage our stable funding sources to better serve our customers. Moreover, we have cooperated with third-party guarantee companies and have begun to establish strategic cooperation with asset management companies, which offer added flexibility and protection to our institutional funding partners.

Besides our existing cooperation with China Telecom Co., Ltd. (中國電信股份有限公司) ("**China Telecom**"), we have also built a strategic relationship with China Mobile Communications Group Co., Ltd. (中國移動通信集團有限公司) ("**China Mobile**") to develop installment loan products. Through our collaboration with China Telecom, we offer products to help China Telecom customers purchase mobile phones with our financing. During the Year, we offered credit lines to more than 1.5 million China Telecom customers from 230 different cities in China, with more than 60% of them eventually using our collaboration loan products accounting for a total loan volume of RMB873.2 million. For our collaboration with China Mobile, we introduced China Foreign Economy and Trade Trust Co., Ltd. (中國對外經濟貿易信託有限公司) as the new funding partner and re-launched our range of collaborative products with China Mobile in December 2019.

As part of our push in the implementation of our technology-driven strategy, we have established a subsidiary, Chengdu Vcredit Jiaozi Digital Technology Co., Ltd. ("**Vcredit Jiaozi**") in Chengdu, which is jointly invested in by Chengdu Financial DreamWorks Investment Management Co., Ltd. ("**Chengdu Financial DreamWorks**"). Chengdu Financial DreamWorks, established with the support of the Chengdu Municipal Party Committee and Government and the Chengdu Branch of the People's Bank of China, is the first financial technology venture with innovation designed to serve small and medium sized micro-finance enterprises. Vcredit Jiaozi was designed to provide one-stop risk management solutions for data collection, third-party data integration, machine learning, business intelligence analytics and model building to equip traditional financial institutions with more comprehensive and intelligent risk prevention capabilities. In 2019, we also formed strategic cooperations with insurance companies to extend our coverage into other traditional financial sectors by leveraging on our expertise in fintech to conduct in-depth cross-border and integrated development in traditional insurance, insurance technology, consumer finance and other business fields. These collaborations further validate our capabilities, commitment and determination, and our strong role in the development of China's financial technology ecosystem, and assisting traditional financial institutions to improve their efficiency of customer acquisition, transaction processing and risk management.

Operating Highlights

Products and Services

We primarily offer two credit products through our pure online loan origination processes: (1) credit cards balance transfer products, and (2) consumption credit products, both of which are installment-based. For the Year, the average term of our credit products was approximately 9.5 months and the average loan size was approximately RMB8,804.

Our credit card balance transfer products allow credit card holders to transfer the outstanding balances of their credit cards to our credit products to bridge their short-term liquidity management needs. Our consumption credit products provide consumers with a variety of installment credit solutions tailored to their specific cases. Credit card balance transfer products and consumption credit products are both purely originated and assessed online through an automated process utilizing our proprietary *Hummingbird system*.

The following tables set forth a breakdown of the number of our loan transactions and loan origination volume by product line for the years indicated.

	For the year ended December 31,			
	2019		2018	
Number of Transactions	***'000***	***%***	*'000*	*%*
Credit card balance transfer products	**1,028.8**	**26.8%**	992.7	44.5%
Consumption credit products	**2,804.4**	**73.2%**	1,217.5	54.5%
Online-to-offline credit products	**—**	**—**	22.2	1.0%
Total	**3,833.2**	**100.0%**	2,232.4	100.0%

Loan Origination Volume	For the year ended December 31, 2019 RMB million	%	2018 RMB million	%
Credit card balance transfer products	**13,068.3**	**38.7%**	13,497.9	65.0%
Consumption credit products	**20,678.1**	**61.3%**	4,652.0	22.4%
Online-to-offline credit products	**—**	**—**	2,606.3	12.6%
Total	**33,746.4**	**100.0%**	20,756.2	100.0%

The following table sets forth a breakdown of the loan origination volume by funding structure for the years indicated.

Loan Origination Volume	For the year ended December 31, 2019 RMB million	%	2018 RMB million	%
Direct lending	**295.1**	**0.9%**	1,279.3	6.2%
Trust lending	**15,333.3**	**45.4%**	12,446.9	60.0%
Credit-enhanced loan facilitation	**16,254.5**	**48.2%**	5,054.6	24.3%
Pure loan facilitation	**1,863.5**	**5.5%**	1,975.4	9.5%
Total	**33,746.4**	**100.0%**	20,756.2	100.0%

Out of all the loans originated by us, the outstanding loan principal calculated using amortization schedule is defined as outstanding balance of loans to customers. The table below sets forth the breakdown of outstanding balance of loans to customers by product line as of the dates indicated.

Outstanding Balance of Loans to Customers	As at December 31, 2019 RMB million	%	2018 RMB million	%
Credit card balance transfer products	**6,092.7**	**31.8%**	6,881.5	49.9%
Consumption credit products	**11,391.6**	**59.5%**	2,629.4	19.0%
Online-to-offline credit products	**1,653.4**	**8.7%**	4,285.5	31.1%
Total	**19,137.7**	**100.0%**	13,796.4	100.0%

Asset Quality

In the third quarter of 2019, we were confronted with a number of challenges in our industry, including disruptions in third-party data services and ripple effects from continued failures of P2P lending platforms. To address these impacts, we revamped our scoring method to make sure we only work with regulatory compliant third-party service providers. We actively optimized our credit policy to minimise the impact caused by these exogenous factors. Our M3+ ratio normalized in the fourth quarter of 2019, and the first payment delinquency ratio echoed a similar pattern. We believe our ongoing overall first payment delinquency ratio will be around 2.0% in 2020. In January 2020, the outbreak of coronavirus hit China and will potentially impact economic development and our sector. We are monitoring the situation closely and are proactively altering our credit policies to better cope with uncertainties.

	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4
First payment delinquency ratio[(1)]	1.5%	1.6%	1.7%	1.6%	1.7%	2.1%	2.4%	2.1%
M1-M3 ratio[(2)]	6.2%	4.5%	3.7%	3.5%	3.9%	3.6%	3.5%	4.1%
M3+ ratio[(3)]	4.8%	7.7%	6.2%	5.0%	5.0%	4.7%	4.3%	4.2%

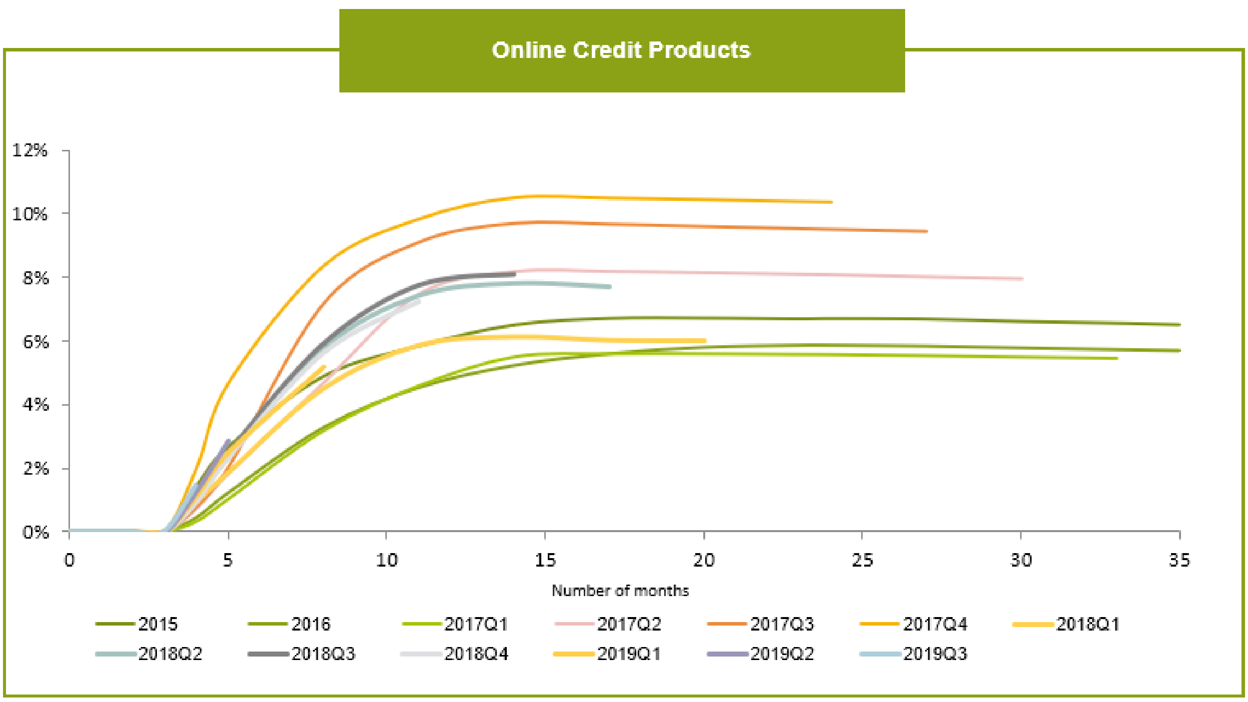
Notes:

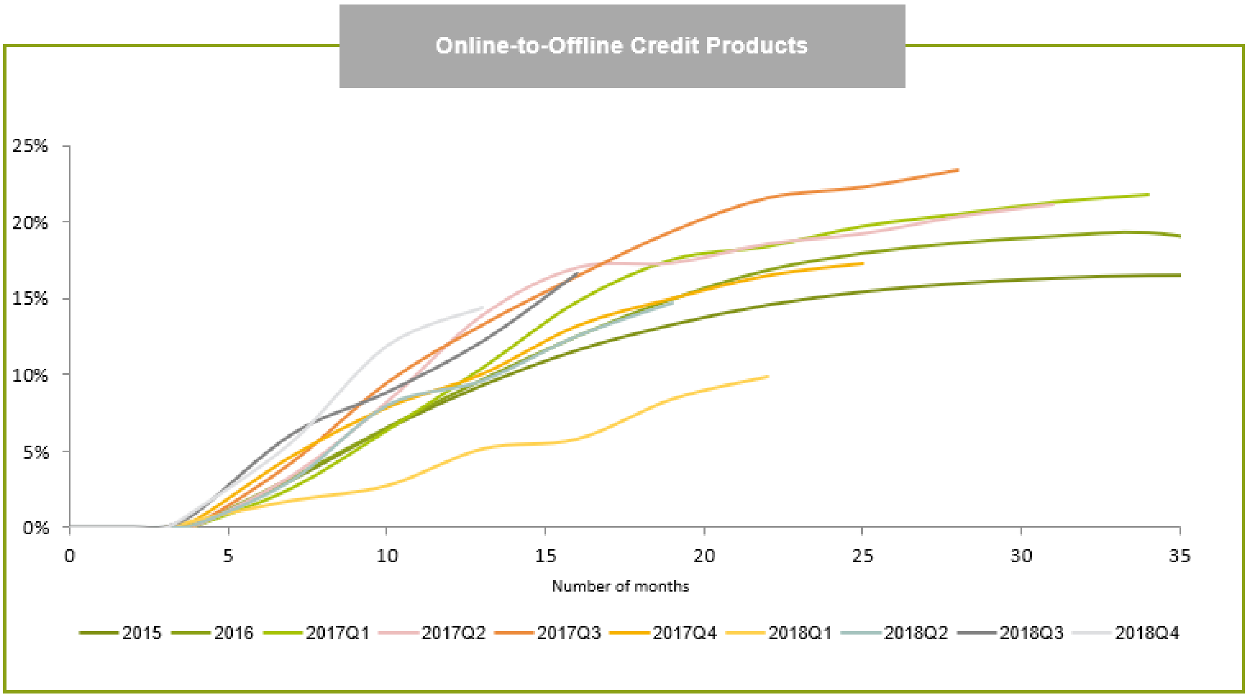
(1) First payment delinquency ratio is defined as the total balance of outstanding principal amount of the loans we originated in the applicable period that were delinquent on their first payment due dates divided by the aggregate loan origination volume in that period.

(2) M1–M3 ratio is calculated by dividing (i) the outstanding balance of loans which have been delinquent up to 3 months, by (ii) the total outstanding balance of loans to customers.

(3) M3+ ratio is calculated by dividing (i) the outstanding balance of loans which have been delinquent for more than 3 months and have not been written off by (ii) the total outstanding balance of loans to customers.

The following diagrams set forth our latest Cohort-Based M3+ Delinquency Ratios by product groups.





Note:

Cohort-Based M3+ Delinquency Ratios is defined as (i) the total amount of principal for all the loans in a vintage that have become delinquent for more than 3 months, less (ii) the total amount of recovered past due principal, and then divided by (iii) the total amount of initial principal for all loans in such vintage.

Outlook and Strategies

We are committed to further building and expanding our online consumer finance business and our product offering to better serve our borrowers, funding partners and business partners, as well as to bring value to the shareholders of the Company (the "**Shareholders**"). Therefore, moving forward, we intend to continue to execute the following strategies to maintain our leading market position:

- Further develop our risk-based pricing technology and related capabilities
- Expand our borrower base by enriching our tailored product offerings
- Increase value proposition to our existing borrowers
- Continue to invest in research and development to improve our risk management capability
- Continue to develop an AI (artificial intelligence) platform to standardize our customer services and collection process in the long-run
- Strengthen compliance under changing regulatory environment
- Further strengthen mutually beneficial relationships with our funding partners
- Actively foster relationships with large internet companies for business and technology partnerships
- Continue to attract high-quality employees and support talent and professional development

Total Income

We derived our total income through (i) net interest type income, (ii) loan facilitation service fees, and (iii) other income. Our total income increased by 41.2% to RMB3,864.4 million for the year ended December 31, 2019, compared to RMB2,736.6 million for the year ended December 31, 2018, primarily due to the increase in loan origination volume through our credit-enhanced loan facilitation structure.

Net Interest Type Income

Our net interest type income is comprised of (i) interest type income and (ii) interest expenses. The following table sets forth our net interest type income for the years indicated.

	For the year ended December 31,	
	2019	2018
Net Interest Type Income	***RMB'000***	*RMB'000*
Interest type income	**2,642,081**	2,930,339
Less: interest expenses	**(862,174)**	(974,770)
Total	**1,779,907**	1,955,569

For the Year, we recorded interest type income of RMB2,642.1 million, which was generated from loans to customers originated under direct lending and trust lending structures. The decrease in interest type income, compared to RMB2,930.3 million for the year ended December 31, 2018, was primarily due to the disposal of our O2O online-to-offline business platform ("**O2O Business Platform**") in the second half of 2018 and as we gradually ceased to originate online-to-offline credit products as from such date. Therefore, the interest type income of online-to-offline credit products decreased by 55.9% to RMB476.4 million for the year ended December 31, 2019, compared to RMB1,079.4 million for the year ended December 31, 2018. On the other hand, our online interest type income increased by 17.0% to RMB2,165.7 million for the year ended December 31, 2019, compared to RMB1,850.9 million for the year ended December 31, 2018, due to the growth of loan origination volume through direct lending and trust lending structures. Interest expenses decreased by 11.6% to RMB862.2 million for the year ended December 31, 2019, compared to RMB974.7 million for the year ended December 31, 2018. The decrease in interest expenses primarily resulted from the decrease in the average borrowing balance during the Year.

The following table sets forth a breakdown of our interest type income by product line in absolute amounts and as percentages of our total interest type income for the years indicated.

	For the year ended December 31,			
	2019		2018	
Interest Type Income	***RMB'000***	***%***	*RMB'000*	*%*
Credit card balance transfer products	**773,222**	**29.3%**	1,119,175	38.2%
Consumption credit products	**1,392,506**	**52.7%**	731,735	25.0%
Online-to-offline credit products	**476,353**	**18.0%**	1,079,429	36.8%
Total	**2,642,081**	**100.0%**	2,930,339	100.0%

Loan Facilitation Service Fees

Loan facilitation service fees increased by 362.3% to RMB1,247.4 million for the year ended December 31, 2019, compared to RMB269.8 million for the year ended December 31, 2018. The increase in loan facilitation service fees was driven by a significant increase in our loan origination volume through credit-enhanced loan facilitation structure. Loans originated under the form of credit-enhanced loan facilitation structure increased by 221.6% to RMB16,254.5 million for the year ended December 31, 2019, compared to RMB5,054.6 million for the year ended December 31, 2018. The following table sets forth a breakdown of our loan facilitation service fees for our credit-enhanced loan facilitation structure and our pure loan facilitation structure for the years indicated.

	For the year ended December 31,	
	2019	2018
Loan Facilitation Service Fees	***RMB'000***	*RMB'000*
Credit-enhanced loan facilitation	**1,147,150**	214,273
Pure loan facilitation	**100,227**	55,559
Total	**1,247,377**	269,832

The upfront loan facilitation service fees increased by 385.5% to RMB1,119.3 million for the year ended December 31, 2019, compared to RMB230.6 million for the year ended December 31, 2018. The following table sets forth the allocation of our loan facilitation service fees for the years indicated.

	For the year ended December 31,	
	2019	2018
Loan Facilitation Service Fees	***RMB'000***	*RMB'000*
Upfront loan facilitation service fees	**1,119,343**	230,560
Post loan facilitation service fees	**128,034**	39,272
Total	**1,247,377**	269,832

Other Income

Other income increased by 63.8% to RMB837.1 million for the year ended December 31, 2019, compared to RMB511.2 million for the year ended December 31, 2018. The increase in other income was primarily due to an increase in referral fees resulting from our targeted efforts in cooperating with our business partners and offering cross-selling opportunities to further enhance the value of our platform. The following table sets forth a breakdown of our other income for the years indicated.

	For the year ended December 31,	
	2019	2018
Other Income	***RMB'000***	*RMB'000*
Membership fees and referral fees	**794,581**	351,653
Penalty and service charges	**327,228**	240,832
Losses from guarantee	**(318,381)**	(160,436)
Others	**33,645**	79,133
Total	**837,073**	511,182

Expenses

Origination and Servicing Expenses

Our origination and servicing expenses decreased by 18.0% to RMB709.5 million for the year ended December 31, 2019 compared to RMB865.6 million for the year ended December 31, 2018, due to the disposal of our O2O Business Platform in the second half of 2018 and the resulting substantial decrease in our employee benefit expenses.

Sales and Marketing Expenses

Our sales and marketing expenses increased by 23.4% to RMB32.2 million for the year ended December 31, 2019, compared to RMB26.1 million for the year ended December 31, 2018, because of increased costs of public relations and market surveillance to monitor the latest market trends in 2019.

General and Administrative Expenses

Our general and administrative expenses increased slightly by 0.6% to RMB505.4 million for the year ended December 31, 2019, compared to RMB502.4 million for the year ended December 31, 2018, mainly due to (i) the decrease of RMB34.6 million in other general and administrative expenses attributable to improved operation efficiency, (ii) an increase of RMB27.8 million in share-based compensation expenses and (iii) an increase of RMB9.8 million in tax and surcharges that resulted from the increased total income.

Research and Development Expenses

Our research and development expenses increased by 24.8% to RMB92.4 million for the year ended December 31, 2019, compared to RMB74.1 million for the year ended December 31, 2018, primarily due to an increase in employee benefit expenses in order to strengthen our technology and risk management capabilities.

Operating Profit

Operating profit was RMB154.4 million for the year ended December 31, 2019, compared to RMB101.6 million for the year ended December 31, 2018, mainly due to the successful implementation of our business strategy to shift to a pure online business platform and steady growth of our business scale. In addition, our operation efficiency has improved since the disposal of our O2O Business Platform.

Net Profit/(Loss)

Net profit was RMB64.8 million for the year ended December 31, 2019, compared to a net loss of RMB1,027.0 million for the year ended December 31, 2018, mainly due to no fair value loss of convertible redeemable preferred shares in 2019.

Non-IFRS Adjusted Operating Profit

Our Non-IFRS adjusted operating profit increased by 7.2% to RMB457.8 million for the year ended December 31, 2019, compared to RMB427.1 million for the year ended December 31, 2018, primarily due to our effective product strategies, streamlining of our business as a result of our constant push in technology implementation and advancement in our operations, and greater operation efficiency in all aspects of our business.

Non-IFRS Adjusted Net Profit

Our Non-IFRS adjusted net profit increased by 24.5% to RMB368.2 million for the year ended December 31, 2019, compared to RMB295.8 million for the year ended December 31, 2018, which is in line with our Non-IFRS adjusted operating profit.

Non-IFRS Measures

To supplement our historical financial information, which are presented in accordance with International Financial Reporting Standards ("**IFRS**"), we also use Non-IFRS adjusted operating profit and Non-IFRS adjusted net profit as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these Non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impact of items that our management do not consider to be indicative of our operating performance. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations and financial position in the same manner as they help our management. From time to time in the future, there may be other items that the Company may exclude in reviewing its financial results. Our presentation of the Non-IFRS adjusted operating profit and Non-IFRS adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of these Non-IFRS measures has limitations as analytical tools, and should not be considered in isolation from, or as substitutes for analysis of, our results of operations or financial position as reported under IFRS.

	For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Operating Profit	**154,369**	101,635
Add:		
Share-based compensation expenses	**303,418**	275,610
Listing expenses	**—**	49,870
Non-IFRS Adjusted Operating Profit	**457,787**	427,115
Non-IFRS Adjusted Operating Profit Margin[(1)]	**11.8%**	15.6%

	For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Net Profit/(Loss)	**64,790**	(1,026,953)
Add:		
Fair value loss of convertible redeemable preferred shares	**—**	1,047,156
Share-based compensation expenses	**303,418**	275,610
Non-IFRS Adjusted Net Profit	**368,208**	295,813
Non-IFRS Adjusted Net Profit Margin[(2)]	**9.5%**	10.8%

Notes:

(1) Non-IFRS adjusted operating profit margin is calculated by dividing the Non-IFRS adjusted operating profit by the total income.

(2) Non-IFRS adjusted net profit margin is calculated by dividing the Non-IFRS adjusted net profit by the total income.

Loans to Customers at Fair Value through Profit or Loss

Our loans to customers at fair value through profit or loss increased by 6.7% to RMB9,457.7 million as at December 31, 2019, compared to RMB8,863.2 million as at December 31, 2018, primarily due to the increase of loans originated by us through our trust lending structures. Our loans to customers at fair value through profit or loss primarily represent the total balance of loans originated by us through our trust lending and direct lending structures.

	As at December 31,			
	2019		2018	
	RMB'000	***%***	*RMB'000*	*%*
Credit card balance transfer products	**2,003,501**	**21.2%**	2,670,922	30.1%
Consumption credit products	**6,097,252**	**64.5%**	2,202,984	24.9%
Online-to-offline credit products	**1,356,920**	**14.3%**	3,989,340	45.0%
Total	**9,457,673**	**100.0%**	8,863,246	100.0%

Contract Assets

Our contract assets increased sharply by 239.3% to RMB523.0 million as at December 31, 2019, compared to RMB154.1 million as at December 31, 2018, as a result of the development of the credit-enhanced and pure loan facilitation funding structures.

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Contract assets	**655,815**	174,039
Less: expected credit losses ("**ECL**") allowance	**(132,793)**	(19,896)
	523,022	154,143

Guarantee Receivables and Guarantee Liabilities

Our guarantee receivables increased by 201.4% to RMB621.2 million as at December 31, 2019, compared to RMB206.1 million as at December 31, 2018. The guarantee liabilities increased by 253.9% to RMB723.6 million as at December 31, 2019, compared to RMB204.5 million as at December 31, 2018. The change in guarantee receivables and guarantee liabilities are primarily due to the growth of credit-enhanced loan origination volume.

	For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Guarantee Receivables		
Opening balance	**206,146**	130,073
Changes on initial application of IFRS 9	**N/A**	(15,209)
Addition arising from new business	**1,426,080**	430,777
ECL	**(165,586)**	(35,998)
Reversal due to early repayment	**(80,384)**	(50,172)
Payment received from borrowers	**(765,008)**	(253,325)
Ending Balance	**621,248**	206,146

	For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Guarantee Liabilities		
Opening balance	**204,496**	169,553
Changes on initial application of IFRS 9	**N/A**	65,299
Addition arising from new business	**1,426,080**	430,777
Release of the margin	**(99,793)**	(27,459)
ECL	**337,790**	137,723
Payouts during the year, net	**(1,144,956)**	(571,397)
Ending Balance	**723,617**	204,496

Borrowings and Senior Notes

Our total borrowings and senior notes, as recorded in our consolidated statement of financial position, comprise (i) payable to trust plan holders, (ii) borrowings from corporations, (iii) borrowings from individuals, (iv) secured borrowings, and (v) senior notes. Our total borrowings and senior notes increased by 21.4% to RMB9,915.2 million as at December 31, 2019, compared to RMB8,170.2 million as at December 31, 2018, primarily due to (i) the increase of loans originated by us through our trust lending structure, and (ii) issuing senior notes for general working capital. The following table sets forth a breakdown of our borrowings by nature as at the dates indicated.

The senior notes are comprised of US$100 million 11.0% senior notes due 2021 issued on June 21, 2019 (the "**Senior Notes**").

	As at December 31,			
	2019		2018	
	RMB'000	**%**	*RMB'000*	%
Payable to trust plan holders	**8,637,946**	**87.1%**	6,952,645	85.1%
Borrowings from corporations	**598,383**	**6.1%**	1,077,789	13.2%
Borrowings from individuals	**—**	**—**	139,124	1.7%
Secured borrowings	**—**	**—**	666	0.0%
	9,236,329	**93.2%**	8,170,224	100.0%
Senior notes	**678,829**	**6.8%**	—	—
Total	**9,915,158**	**100.0%**	8,170,224	100.0%

Weighted Average Interest Rates of Borrowings and Senior Notes	As at December 31, **2019**	2018
Payable to trust plan holders	**11.0%**	11.0%
Borrowings from corporations	**10.5%**	10.0%
Borrowings from individuals	**10.0%**	10.0%
Secured borrowings	**6.2%**	6.2%
Senior notes	**11.0%**	—

Gearing ratio

As at December 31, 2019, our gearing ratio, calculated as total liabilities divided by total assets, was approximately 78.3%, representing an increase of 2.1% as compared with 76.2% as at December 31, 2018. The increase was primarily due to issuance of the Senior Notes.

As at December 31, 2019, our consolidated debt to equity ratio, calculated as sum of borrowings, Senior Notes, lease liabilities and guarantee liabilities divided by total equity, was approximately 3.4, as compared with 3.0 as at December 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operating activities and capital contribution from Shareholders.

Cash Flows

The following table sets forth our cash flows for the years indicated.

	For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Net cash inflow from operating activities	**367,619**	3,128,239
Net cash (outflow)/inflow from investing activities	**(26,517)**	123,435
Net cash inflow/(outflow) from financing activities	**778,367**	(2,765,474)
Net increase in cash and cash equivalents	**1,119,469**	486,200
Cash and cash equivalents at the beginning of the financial year	**1,050,112**	568,196
Effects of exchange rate changes on cash and cash equivalents	**(57)**	(4,284)
Cash and cash equivalents at the end of the year	**2,169,524**	1,050,112

Our cash inflow generated from operating activities primarily consists of principal and interest, loan facilitation service fees and other services received from the consumer finance products we offered. Our cash outflow used in operating activities primarily consists of cash payment of guarantee indemnification, employee salaries and benefits, taxes and surcharges, and other operating expenses. We had net cash inflow generated from operating activities of RMB367.6 million for the year ended December 31, 2019, as compared to net cash inflow generated from operating activities of RMB3,128.2 million the year ended December 31, 2018. Net cash inflow from operating activities decreased primarily due to the increase of RMB2,886.4 million in loans originated by trust lending structure for the year ended December 31, 2019.

We had net cash outflow from investing activities of RMB26.5 million for the year ended December 31, 2019, as compared to net cash inflow of RMB123.4 million for the year ended December 31, 2018. Our net cash outflow mainly comprised payments for property, plant and equipment and intangible assets of RMB24.5 million for the Year.

We had net cash inflow from financing activities of RMB778.4 million for the year ended December 31, 2019, as compared to net cash outflow of RMB2,765.5 million for the year ended December 31, 2018. For the year ended December 31, 2019, we had net cash inflow from financing activities which was primarily due to RMB660.6 million from issuance of the Senior Notes on June 21, 2019. In addition, we also had net cash inflow from borrowings and trust plans of RMB1,012.0 million and cash outflow from payment of interest expenses of RMB807.3 million for the year ended December 31, 2019.

Opinion

The Board is of the opinion that, after taking into account existing available borrowing facilities and internal resources, the Company and its subsidiaries (the "**Group**") has sufficient resources to meet its foreseeable working capital requirements.

CAPITAL COMMITMENTS, CONTINGENCIES AND CHARGES ON ASSETS

Capital Commitments

The Group did not have any significant capital commitments contracted for at the end of the year but not recognised as liabilities as at December 31, 2019.

Charges on Assets

The Group did not have any charges on assets as at December 31, 2019.

Contingencies

The Group did not have any significant contingent liabilities as at December 31, 2019.

ACQUISITIONS AND DISPOSALS

Material Investments and Acquisitions

The Group did not hold any material investments or make any material acquisitions during the Year.

Future Plans for Material Investments and Capital Assets

Saved as disclosed in this annual report, the Group does not have any present plans for other material investments and capital assets.

DIRECTORS

Mr. Liu Sai Wang Stephen	*Executive Director and Chief Executive Officer*
Mr. Liu Sai Keung Thomas	*Executive Director and Chief Operating Officer*
Mr. Ma Ting Hung	*Non-Executive Director and Chairman*
Ms. Shen Jing	*Non-Executive Director*
Mr. Yip Ka Kay	*Non-Executive Director*
Mr. Chen Penghui	*Independent Non-Executive Director*
Dr. Seek Ngee Huat	*Independent Non-Executive Director*
Mr. Wu Chak Man	*Independent Non-Executive Director*

Directors — Biographies

Mr. Liu Sai Wang Stephen ("Mr. Stephen Liu"), aged 52, joined as a director of the Company in September 2007. He is an executive director and the Chief Executive Officer of the Company and a member of the remuneration committee of the Company. He is also a director of several subsidiaries of the Company. Mr. Stephen Liu is responsible for the overall strategic planning and business oversight of the Group, as well as management of the Company. Prior to joining the Company, Mr. Stephen Liu held various positions at the Hong Kong Branch of The Sanwa Bank Ltd. between July 1989 and September 2000, including as Senior Manager of its China Department.

Mr. Stephen Liu received his Bachelor of Science degree from The Chinese University of Hong Kong in December 1989 and a master's degree in business administration from The University of Michigan in April 2003.

Mr. Stephen Liu is the brother of Mr. Liu Sai Keung Thomas, an executive director and the Chief Operating Officer of the Company.

Mr. Stephen Liu is a director of each of Magic Mount Limited and Perfect Castle Development Limited, substantial shareholders (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) of the Company.

Mr. Liu Sai Keung Thomas ("Mr. Thomas Liu"), aged 47, joined as a director of the Company in November 2017. He is an executive director and the Chief Operating Officer of the Company. Mr. Thomas Liu is also a supervisor of several subsidiaries of the Company. He is responsible for overseeing the day-to-day operations of the Company. Prior to joining the Company, Mr. Thomas Liu worked as Managing Director in the Strategic Investment division at GroupM, a division of J. Walker Thompson-Bridge Advertising Co., Ltd., from August 2007 to May 2009. He was also Vice President in the Business Development department at Star (China) Company Limited, a then subsidiary of 21st Century Fox (Asia) Ltd. (formerly known as the News Corporation) from February 2006 to July 2007. From April 2003 to February 2006, Mr. Thomas Liu held various positions in the group of TOM Group Limited (SEHK Stock Code: 2383), a company listed on Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), including as director of the Corporate Development department at TOM Online Inc. Mr. Thomas Liu was an associate in Lehman Brothers Inc. in New York from 2001 to 2002.

Mr. Thomas Liu is an independent non-executive director of NetDragon Websoft Inc. (SEHK Stock Code: 777), a company listed on the Main Board of the Stock Exchange.

Mr. Thomas Liu obtained his bachelor's degree in business administration in May 1995 and a master's degree in finance (evening program) in December 1999, both from The Chinese University of Hong Kong. He also received a master's degree in business administration, majoring in Finance and Strategy, from The Anderson School at University of California, Los Angeles, in June 2001.

Mr. Thomas Liu is the brother of Mr. Stephen Liu, an executive director and the Chief Executive Officer of the Company.

Mr. Ma Ting Hung, aged 56, joined as a director of the Company in September 2007. He is a non-executive director and the Chairman of the Company and the chairman of the nomination committee of the Company. He is also a director of several subsidiaries of the Company. Mr. Ma is responsible for the overall strategic planning and business direction of the Group and management of the Company. Mr. Ma has over 27 years of experience in banking and finance, and the natural resources industry. Mr. Ma served as an executive director of CITIC Resources Holdings Limited (SEHK Stock Code: 1205), a company listed on the Main Board of the Stock Exchange, from August 2000 to August 2007 and as a non-executive director of CITIC Resources Holdings Limited from August 2007 to June 2009 and from September 2015 to June 2018, as its Chief Executive Officer from August 2000 to September 2005, its Vice Chairman from August 2000 to August 2007 and a member of its remuneration committee from March 2006 to August 2007. He was also an independent non-executive director of Universe International Holdings Limited (SEHK Stock Code: 1046), a company listed on the Main Board of the Stock Exchange, from September 2004 to November 2008.

Mr. Ma received his Bachelor of Arts degree majoring in Economics from the University of Southern California in December 1985. Mr. Ma is a member of China Overseas Friendship Association and a member of The Hong Kong Independent Non-Executive Directors Association.

Mr. Ma is a director of, each of Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited, substantial shareholders (within the meaning of Part XV of the SFO) of the Company.

Ms. Shen Jing, aged 33, joined as a non-executive director of the Company in October 2019. She is the Operating Director, China Operating Head of TPG Capital Asia since February 2018. Prior to joining TPG Capital Asia, Ms. Shen worked at Alvarez & Marsal Asia Ltd, as a senior director.

Ms. Shen holds a Bachelor Degree of Business Administration from The Chinese University of Hong Kong. She also holds the Financial Risk Manager designation and the Chartered Financial Analyst designation.

Mr. Yip Ka Kay, aged 55, joined as a director of the Company in March 2012. He is a non-executive director of the Company and a member of the audit committee of the Company.

Mr. Yip is the managing director and responsible officer of GRE Investment Advisors Limited, a Hong Kong Securities and Futures Commission licensed advisor to NM Strategic Management, LLC. He is also a managing director of General Oriental Investments (HK) Limited, a wholly owned subsidiary of General Oriental Investments S.A., the investment manager of the Cavenham Group of Funds. Mr. Yip is also an independent non-executive director and a member of the audit committee, nomination committee and remuneration committee of Shun Tak Holdings Limited (SEHK Stock Code: 242), a company listed on the Main Board of the Stock Exchange. Mr. Yip has extensive experience in private equity and alternative and portfolio investment. He was previously the managing director and responsible officer of Bosera Asset Management (International) Co., Limited in Hong Kong. Prior to that, he was a founding and senior partner of General Enterprise Management Services (HK) Limited, a private equity management company. He was also previously a vice president of JP Morgan International Capital Corporation.

Mr. Yip is currently a member of the Investment Advisory Committee of EQT Partners, a leading private equity group in Europe, which works with portfolio companies to achieve sustainable growth, operational excellence and market leadership.

Mr. Yip holds an A.B. Degree in Economics (magna cum laude) from Harvard University. He sits as a non-scientific member of the Institutional Review Board of the University of Hong Kong/Hospital Authority Hong Kong West Cluster and is also a member of the board of trustees of Milton Academy, Massachusetts, USA. He was chairman emeritus of the Hong Kong Venture Capital and Private Equity Association. Mr. Yip had also served on the Financial Services Advisory Committee of the Trade Development Council of the Hong Kong Special Administrative Region of the People's Republic of China.

Mr. Chen Penghui, aged 48, joined as an independent non-executive director of the Company in June 2018. He is the chairman of the remuneration committee of the Company and a member of the audit committee of the Company. Mr. Chen is a partner at Biotrack Capital (博遠醫療基金), an investment fund, which he co-founded in June 2017. Prior to that, Mr. Chen was a partner at Sequoia Capital China (紅杉資本中國基金) from May 2014 to May 2017 and a managing director at China Everbright Holdings Co., Ltd. (中國光大集團股份公司) from December 2011 to May 2014. He is a director of BGI Genomics Co., Ltd. (深圳華大基因股份有限公司) (Stock Code: 300676), a company listed on the Shenzhen Stock Exchange. Mr. Chen was also the President of ShangPharma Co., Ltd. ("**ShangPharma**") (previously listed on the New York Stock Exchange under stock code: SHP) from January 2011 to December 2011, the chief operating officer of ShangPharma from 2008 to 2011 and the chief financial officer of ShangPharma from September 2010 to January 2011, and a director of Jiangsu Yuyue Medical Equipment & Supply Co., Ltd. (江蘇魚躍醫療設備股份有限公司) (Stock Code: 002223), a company listed on the Shenzhen Stock Exchange, from April 2015 to November 2017.

Mr. Chen received his bachelor's degree in chemistry from Nanjing University in July 1993 and master's degree in medicinal chemistry from Tulane University in May 1998. Mr. Chen was awarded a master's degree in business administration from Kellogg School of Management, Northwestern University in June 2003.

Dr. Seek Ngee Huat, aged 70, joined as an independent non-executive director of the Company in June 2018. Dr. Seek is a member of the nomination committee of the Company. He holds advisory roles at the Centre for Liveable Cities, Frasers Property Limited (SGX: TQ5), a company listed on the Singapore Stock Exchange, GLP Pte. Ltd. and Canada Pension Plan Investment Board. Dr. Seek is also a director of Brookfield Asset Management Inc. (Stock Code: BAM.A; BAM and BAMA), a company listed on the Toronto Stock Exchange, the New York Stock Exchange and Euronext, and is a member of its Governance and Nominating Committee. He has served as the chairman of the management board of the Institute of Real Estate Studies at the National University of Singapore since June 2009, where he is also practice professor of real estate. Dr. Seek was the chairman of the Urban Land Institute Asia Pacific from July 2016 to June 2018 and has held various senior positions in the group of GIC Private Limited (formerly known as "Government of Singapore Investment Corporation"), including as President and director at GIC Real Estate Pte Ltd, director of the GIC Private Limited, Advisor to GIC Group Executive Committee and Chairman of the Latin America Business. Dr. Seek was a director and chairman of Global Logistic Properties Limited (Stock Code: MC0.SI), a company listed on the Singapore Stock Exchange, from September 2010 to January 2018 and chairman of the Investment Committee and chairman of the Human Resources & Compensation Committee of Global Logistic Properties Limited. Dr. Seek was appointed the chairman of GLP IM Holdings Limited in September 2018.

Dr. Seek received his Bachelor of Science degree in Estate Management from the University of Singapore in August 1973. He also holds a Master of Science in Business Administration from the University of British Columbia, Canada and a PhD in urban research from the Australian National University. Dr. Seek has been awarded the Singapore Public Administration Gold Medal and the Outstanding Service Award by the National University of Singapore.

Mr. Wu Chak Man, aged 48, joined as an independent non-executive director of the Company in June 2018. He is the chairman of the audit committee and a member of the nomination committee and the remuneration committee. Mr. Wu is the founding partner of MFund Venture Capital and the Chief Executive Officer of Shanghai Moliang Venture Investment Center (LLP) (上海魔量創業投資中心(有限合夥)). He is also an independent non-executive director of China Parenting Network Holdings Limited (中國育兒網路控股有限公司) (SEHK Stock Code: 1736), a company which is listed on the Main Board of the Stock Exchange. Mr. Wu resigned as an independent non-executive director of Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司) (SEHK Stock Code: 1980), a company listed on the Main Board of the Stock Exchange, on June 13, 2018. Mr. Wu was also an executive director and the chief executive officer of 91 Wireless Websoft Limited (now known as Baidu 91 Wireless) from 2011 to 2014. Between 2004 to 2013, Mr. Wu held various senior management positions in the group of NetDragon Websoft Holdings Limited (網龍網絡控股有限公司) (SEHK Stock Code: 777), a company listed on the Main Board of the Stock Exchange, including chief financial officer and vice-president of NetDragon Websoft Holdings Limited.

Mr. Wu received his bachelor's degree in economics from the University of California, Berkeley and master's degree in business administration from Duke University.

Senior Management — Biographies

Mr. Gong Yisheng, aged 45, joined in January 2019 and is the chief risk officer of the Group. Prior to joining the Group, Mr. Gong had extensive experience in consumer lending risk management having spent 10 years at Capital One in the United States of America before returning to China to spearhead risk management at two independent consumer finance lenders during the past 3 years.

Mr. Gong received his bachelor's degree from Guanghua School of Management, Peking University, and a master's degree in economics from Temple University in the United States of America.

Mr. Jin Jiafang, aged 42, joined in March 2013 and is the chief technology officer of the Group. Prior to joining the Group, Mr. Jin served as a Vice President of Information Management at International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司) from May 2007 to January 2013.

Mr. Jin received his master's degree in business administration from Tongji University in November 2007. Mr. Jin also received a bachelor's degree in economics from Tsinghua University in July 2007, through long distance learning.

Ms. Xue Lan, aged 56, joined in 2001, and is the general manager of the Group. She is also the general manager of Vision Credit Financial Technology Co., Ltd. (上海維信薈智金融科技有限公司), Vision Credit Financing Guarantee Co., Ltd. (維仕融資擔保有限公司), and Chengdu Weishi Microfinance Co., Ltd. (成都維仕小額貸款有限公司) Ms. Xue is currently a member of the 14th Chinese People's Political Consultative Conference and a member of the 14th Standing Committee of the China Federation of Industry and Commerce in Hongkou District, Shanghai, China. She has been awarded the title of Shanghai New Long March pacesetter and the title of Shanghai women pacesetter from 2017 to 2018.

Mr. Yu Rui, aged 43, joined in June 2007 and is the chief marketing officer of the Group. Prior to joining the Group, Mr. Yu successively worked in NEC (China) Co., Ltd. and Beijing Jiexun Ruizhi Technology Development Co., Ltd.

Mr. Yu received a master's degree from the University of Nottingham, UK, and an EMBA from the China Europe International Business School.

Mr. Zhou Zheng, aged 34, joined in November 2017 and is the chief financial officer of the Group. Prior to joining the Company, Mr. Zhou served as a vice president at Credit Suisse (Hong Kong) Limited in the Investment Banking and Capital Markets Division.

Mr. Zhou received his bachelor's degree in business administration in finance from the Hong Kong University of Science and Technology.

The board of directors of the Company (the "**Board**") is committed to applying good corporate governance practices and procedures in its management of the Company and the conduct of its business and operations.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is of the view that the Company has, during the Year, applied the principles and complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 (the "**CG Code**") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct to regulate dealings in the securities of the Company by its directors and senior management of the Company. Each director has confirmed, following specific enquiry by the Company, that he or she has complied with the required standards set out in the Model Code throughout the Year or throughout the period from the date of appointment during the Year, as the case may be.

BOARD OF DIRECTORS

Members of the Board

As at the date of this report, the Board comprised the following directors:

Executive Directors

Mr. Liu Sai Wang Stephen *(Chief Executive Officer)*
Mr. Liu Sai Keung Thomas *(Chief Operating Officer)*

Non-Executive Directors

Mr. Ma Ting Hung *(Chairman)*
Ms. Shen Jing
Mr. Yip Ka Kay

Independent Non-Executive Directors

Mr. Chen Penghui
Dr. Seek Ngee Huat
Mr. Wu Chak Man

Mr. Liu Sai Wang Stephen and Mr. Liu Sai Keung Thomas are siblings. Save as aforesaid, there are no other material or relevant financial, business, family or other relationships between the directors.

Responsibilities of the Board

The Board is responsible for the overall management of the Group and its business and affairs, which includes providing leadership and control to and over the Group's management, determining business strategy, monitoring financial and operating performance and reviewing the effectiveness of internal control and risk management systems.

The Board possesses the required knowledge, skills, experience and diversity appropriate for the requirements of the Group's business and the ability to exercise independent judgement in the interests of the Company and its Shareholders.

The Board is provided with monthly management reports on the Group's business and financial performance.

Board Meetings

The Board holds meetings regularly and holds at least four meetings a year at about quarterly intervals to review the operations and financial and business performance of the Group, including the interim and annual financial results of the Group. Regular Board meetings are scheduled in advance to give directors an opportunity to attend. Additional meetings of the Board are held to deal with Board matters as necessary. At least 14 days' notice of regular Board meetings is given to directors and such notice as is reasonable in the circumstances in all other cases. Directors are invited to include matters in the agenda for regular Board meetings. Directors can attend Board meetings either in person or by electronic means of communication.

A total of five Board meetings were held during the Year. There was satisfactory attendance for Board meetings, which evidences prompt attention of the directors to the affairs of the Company.

If a substantial shareholder (as defined under the Listing Rules) or a director has a material conflict of interest in respect of a matter to be considered by the Board, the matter will be dealt with by a physical Board meeting (and not by a written resolution). Independent non-executive directors who, and whose associates, have no material interest in the transaction will be present at such board meeting.

Efforts are made to ensure that directors' questions or requests are dealt with promptly. All directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The directors also have separate and independent access to senior management to make further enquiries or to obtain more information where necessary.

Delegation by the Board

Authority and responsibility for the day-to-day management, administration and operation of the Group is delegated by the Board to a senior management team, led by the chief executive officer.

Under the leadership of the chief executive officer, senior management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Group's businesses.

The Board determines which functions are reserved to the Board and which are delegated to senior management. The Board delegates appropriate aspects of its management and administrative functions to senior management and gives clear directions as to the powers of senior management, in particular, with respect to the circumstances where senior management must report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. These arrangements are reviewed periodically to ensure that they remain appropriate to the needs of the Company.

Important matters are reserved to the Board for its decision, including long term objectives and strategies, extension of the Group's activities into new business areas, appointments to the Board and the Board committees, annual budgets, material acquisitions and disposals, material connected transactions, material banking facilities, approval of interim and final results and payment of dividends.

Appointment and Re-election of Directors

The amended and restated articles of association of the Company (the "**Articles**") require that at each annual general meeting one-third of the Board shall retire from office by rotation, and that each director (including those appointed for a specific term) are subject to retirement by rotation at least once every three years.

Non-executive directors (including independent non-executive directors) are now appointed for an initial term of one year, and thereafter from year to year, subject to retirement in accordance with the Articles.

The Articles also require that a director appointed to fill a casual vacancy shall hold office only until the first general meeting after his/her appointment and is subject to re-election at such meeting and that a director appointed as an addition to the Board shall hold office only until the next following annual general meeting of the Company and is subject to re-election at such meeting.

Non-Executive Directors

The non-executive directors (including the independent non-executive directors) are experienced individuals from diversified backgrounds and industries including the financial sector, and one independent non-executive director has appropriate accounting and related financial management expertise as required by the Listing Rules. With their expertise and experience, the non-executive directors (including the independent non-executive directors) provide independent judgement and advice on the overall management of the Company.

The total number of non-executive directors (including the independent non-executive directors) currently represents more than half of the Board members which lends a very strong independent element to the Board and its judgement and decision-making. The non-executive directors (including the independent non-executive directors) take the lead where potential conflicts of interests arise.

Independent non-executive directors are invited to fully participate in Board meetings.

During the Year, the chairman has held a meeting with the independent non-executive directors without the presence of other directors.

Independent Non-Executive Directors

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Board is of the view that all of the independent non-executive directors meet the guidelines for assessing independence as set out in rule 3.13 of the Listing Rules and considers them to be independent.

Directors' Training and Professional Development

The directors have received training and induction on their duties and responsibilities as directors and the requirements of and their obligations under, amongst others, the Listing Rules and the SFO. On appointment, each new director is provided with orientation materials regarding his or her duties and responsibilities under the Articles, the Listing Rules, the SFO and the Company's corporate governance policies, as well as an understanding of the Group's corporate goals, activities and business, strategic plans and financial performance and position.

The company secretary is responsible for keeping directors updated on the Listing Rules and other regulatory and reporting requirements changes and developments.

To develop and refresh their knowledge and skills, the directors are expected to participate in appropriate continuous professional development training that covers updates on laws, rules and regulations and also directors' duties and responsibilities. During the Year, Mr. Ma Ting Hung, Mr. Liu Sai Wang Stephen, Mr. Liu Sai Keung Thomas, Ms. Shen Jing, Mr. Yip Ka Kay, Mr. Chen Penghui, Dr. Seek Ngee Huat and Mr. Wu Chak Man received and read materials on Hong Kong regulatory developments and recent amendments to the Listing Rules, etc. The directors have confirmed they have received appropriate continuous professional development training during the Year.

Indemnification of Directors and Officer

The directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in the discharge of their duties while holding office as directors and officers of the Company. The directors and officers are not indemnified if negligence, fraud, breach of duty or breach of trust is proven against them.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles, responsibilities, authorities and powers of the chairman and the chief executive officer are separate and distinct and are not performed by the same individual.

The chairman focuses on the Group's strategic business planning while the chief executive officer has overall executive responsibility for the Group's day-to-day development and management. They receive significant support from the directors and senior management.

The chairman is responsible for, amongst other things, ensuring the whole Board receives, in a timely manner, adequate information regarding the Group and its financial and business performance which is accurate, clear, complete and reliable. The Board, led by the chairman, sets the overall direction, strategy and policies of the Company.

The chairman provides leadership for the Board to ensure that it works effectively, performs its responsibilities and acts in the best interests of the Company. He is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. The chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings. He also encourages the directors, especially non-executive directors (including the independent non-executive directors), to make full and active contributions to the Board's affairs, to voice their concerns or different views and ensure that the Board's decisions fairly reflect the consensus.

BOARD COMMITTEES

The Board has established an audit committee, nomination committee and remuneration committee, each with specific terms of reference that deal clearly with their respective authorities and responsibilities. The terms of reference of each of these committees is available on the websites of the Company and the Stock Exchange.

There was satisfactory attendance for meetings of the board committees during the Year. The minutes of committee meetings are circulated to all members of the relevant committee unless a conflict of interest arises. The committees are required to report back to the Board on key findings, recommendations and decisions.

Audit Committee

The role and responsibilities of the audit committee include:

(A) the review and supervision of the financial reporting process, financial controls, internal control and risk management system and to make recommendations and provide advice to the Board on the appointment, re-appointment and removal and the terms of appointment of the external auditor; and

(B) reporting to the Board any suspected fraud and irregularities and suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

Members of the audit committee during the Year were:

Mr. Wu Chak Man *(Independent Non-Executive Director) (Chairman)*
Mr. Chen Penghui *(Independent Non-Executive Director)*
Mr. Yip Ka Kay *(Non-Executive Director)*

The Board believes that members of the committee possess appropriate professional qualifications and/or experience in financial matters. None of the committee members is or has been a partner of the existing external auditor.

During the Year, the audit committee met twice, together with senior management and the external auditor to review, amongst other things, the annual financial statements of the Company for the year ended December 31, 2018 and the interim financial statements of the Company for the six months ended June 30, 2019, the accounting principles and practices adopted by the Group, statutory compliance, other financial reporting matters, and the adequacy and effectiveness of the Group's internal audit, as well as the adequacy of resources, staff qualifications and experience of the Company's accounting, internal audit and financial reporting functions.

Nomination Committee

The role and responsibilities of the nomination committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying appropriate candidates to serve as directors of the Company, overseeing the process for evaluating the performance of the Board, assessing the independence of the independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

To assist the nomination committee in considering the nomination of new directors, the Board has adopted:

(A) a diversity policy which sets out the approach to achieve diversity on the Board by requiring consideration of a range of diversity perspectives with regard to the selection of candidates as directors including, but not limited to, gender, age, cultural and educational background and professional experience; and

(B) a nomination policy which, amongst other things, sets out the factors which the nomination committee should consider in discharging its responsibilities.

Members of the nomination committee during the Year were:

Mr. Ma Ting Hung *(Non-Executive Director) (Chairman)*
Dr. Seek Ngee Huat *(Independent Non-Executive Director)*
Mr. Wu Chak Man *(Independent Non-Executive Director)*

The nomination committee met two times during the Year to review, among other things, the structure, size and composition of the Board, the independence of independent non-executive directors, the retirement and re-election of directors in accordance with the Articles and the Listing Rules, and the resignation and appointment of non-executive directors.

Remuneration Committee

The role and responsibilities of the remuneration committee are to make recommendations to the Board in determining the policy and structure for the remuneration of directors and senior management, to establish a formal and transparent procedure for developing policy, to evaluate the performance of directors and senior management, to review and approve the terms of incentive schemes and directors' service contracts, and to recommend the remuneration packages for all directors and senior management.

The remuneration committee consults the chairman of the Board and/or the chief executive officer about the remuneration proposals for executive directors, and may also seek independent professional advice if considered necessary.

Members of the remuneration committee during the Year were:

Mr. Chen Penghui *(Independent Non-Executive Director) (Chairman)*
Mr. Wu Chak Man *(Independent Non-Executive Director)*
Mr. Liu Sai Wang Stephen *(Executive Director)*

A meeting of the remuneration committee by written resolution was held during the Year to make recommendations to the Board as to the grant of share awards under the VCREDIT No. 1 Share Award Scheme adopted on January 11, 2019 (the "**Share Award Scheme**") to certain eligible persons. The remuneration committee meets as and when required to perform its responsibilities, and at least once in each financial year of the Company.

ATTENDANCE AT MEETINGS OF THE BOARD AND BOARD COMMITTEES, AND THE ANNUAL GENERAL MEETING

	Number of meetings held during the Year Attended/Eligible to attend				
	Board	**Audit Committee**	**Nomination Committee**	**Remuneration Committee***	**Annual General Meeting held on June 28, 2019**
Executive Directors					
Mr. Liu Sai Wang Stephen	5/5			1/1	1/1
Mr. Liu Sai Keung Thomas	5/5				0/1
Non-Executive Directors					
Mr. Ma Ting Hung	5/5		2/2		1/1
Mr. Chen Derek *(resigned on October 9, 2019)*	1/4				0/1
Ms. Liu Yang *(retired on June 28, 2019)*	2/2				0/1
Ms. Shen Jing *(appointed on October 9, 2019)*	1/1				
Mr. Yip Ka Kay	5/5				1/1
Independent Non-Executive Directors					
Mr. Chen Penghui	5/5	2/2		1/1	0/1
Dr. Seek Ngee Huat	5/5	2/2	2/2		1/1
Mr. Wu Chak Man	5/5	2/2	2/2	1/1	0/1

* *Written Resolution*

CORPORATE GOVERNANCE FUNCTIONS

The Board has the following responsibilities:

(A) to develop and review the Company's policies and practices on corporate governance and to review compliance with the CG Code and disclosures in the corporate governance report;

(B) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(C) to review and monitor the training and continuous professional development of the directors and senior management; and

(D) to develop, review and monitor the code of conduct applicable to the directors and employees.

COMPANY SECRETARY

Mr. Cha Johnathan Jen Wah is the company secretary of the Company. Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Mr. Cha has completed no less than 15 hours of relevant professional training during the Year in compliance with rule 3.29 of the Listing Rules.

The Company has not appointed an external service provider to act as company secretary.

FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements of the Group. The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions. The Board aims at presenting a balanced, clear and comprehensive assessment of the Group's performance, financial and business position and prospects. Senior management provides explanation and information to the directors to enable the Board to make informed assessments of the financial, business and other matters put before the Board for approval.

Based on a review conducted by the audit committee, the Board considers that the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function are adequate.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining a system of risk management and internal control appropriate for the Group's business and for reviewing its effectiveness.

As a consumer finance service provider in China, the Group is subject to a variety of risks to its business operations, including credit risk, liquidity risk, legal and compliance risk, market risk, data privacy risk and operational risk. Among these risks, credit risk of borrowers is the primary exposure of the Group. The overall objective of the Group's risk management system is to maintain and optimize robust and efficient risk management and internal control to ensure the security of the Group's operations and assets, to achieve a balance between business growth and risk control, and to protect the long-term interests of the Shareholders.

The Group applies a risk management and internal control system that monitors, assesses and manages the risks associated with the Group's business and operations.

Implementation of the risk management and internal control system is conducted by senior management through a risk management framework that includes, amongst others, a risk management committee comprising senior management members including the chief executive officer and chief risk officer, a risk management and control department which reports to the chief risk officer and other risk management functions such as the credit policy and underwriting department which formulates and updates credit policies and supervises the execution of risk management policies, the loan servicing department which is responsible for loan servicing and collection, the IT department which is responsible for providing technical support to the Group's proprietary risk management system, *Hummingbird*, and the internal control and compliance department which is primarily responsible for formulating and implementing internal control rules and procedures, standardising business processes and promoting best business practices.

The Company has taken appropriate measures to identify inside information and preserve its confidentiality until proper dissemination via the electronic publication system operated by the Stock Exchange.

The Board has received from management a confirmation on the effectiveness of the risk management and internal control systems for the Year.

The Board, as supported by the Audit Committee as well as the internal audit department which has reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the Year, consider that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

INTERNAL AUDIT

The internal audit department is supervised by the audit committee. It conducts independent internal audits of the effectiveness of the Group's risk management and internal control.

The internal audit department is authorized to perform comprehensive inspection, review, and assessment of all of the Group's business process and corporate governance to identify deficiencies and other material issues including risk-related issues, and to provide recommendations for improvement and rectification. The internal audit department also conducts follow-up of audits to ensure previously identified issues have been duly addressed and corrected.

AUDITOR'S REMUNERATION

PricewaterhouseCoopers ("**PwC**") is the Company's external auditor until the next annual general meeting, when PwC will stand for re-appointment. PwC is primarily responsible for providing audit services in connection with the financial statements of the Group for the Year.

During the Year, PwC charged the Group RMB5.0 million for the provision of audit services and RMB0.2 million for the provision of non-audit services. The non-audit services included tax consulting services.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene a special general meeting

Shareholder(s) holding not less than one-tenth of the paid up capital of the Company having the right to vote at general meetings may, by written requisition to the Board or the company secretary, require a general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purpose of the meeting, be signed by the requisitionist(s) and deposited with the Board or the company secretary at the Company's principal place of business in Hong Kong at Suite 1918, 19/F, Two Pacific Place, 88 Queensway, Hong Kong.

The share registrar will verify the particulars of the requisitionist(s) in the request and provided the request is in order and valid, the company secretary will ask the Board to convene a general meeting by serving notice to all registered Shareholders in accordance with relevant statutory and regulatory requirements. If the request is found to be not in order and valid, the requisitionist(s) will be advised of the outcome and a general meeting will not be convened as requested. If within 21 days from the date of a proper and valid requisition the Board fails to proceed to convene a general meeting, the requisitionist(s) may convene such a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene a general meeting shall be reimbursed by the Company to the requisitionist(s).

Procedures for putting forward proposals at general meetings

There are no provisions allowing Shareholders to propose new resolutions at general meetings under the Cayman Islands Companies Law. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding section "Procedures for shareholders to convene a special general meeting". Shareholders can also send written enquiries and proposals to the Board to, but without obligation on the part of the Board, consider putting the matter before Shareholders at a general meeting. Such enquiries or proposals may be sent to the Board or the company secretary at the Company's principal place of business in Hong Kong at Suite 1918, 19/F, Two Pacific Place, 88 Queensway, Hong Kong.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time put enquiries to the Board. Enquiries should be in writing and sent by post to the principal place of business of the Company in Hong Kong or by email for the attention of the Investor Relations Department to "ir@vcredit.com".

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company maintains a number of communications channels between itself and Shareholders, investors and other stakeholders. These include annual and other general meetings, annual and interim results and reports, notices, announcements and circulars and the Company's website, www.vcredit.com.

DIVIDEND POLICY

The Board has adopted a dividend policy which sets out the general objective, procedure and principles relating to the determination and declaration of dividends and distributions by the Company. In summary, dividends and distributions by the Company are required to comply with applicable legislation and the Articles. The Board shall exercise care in its financial management of the Company and in declaring dividends and distributions. Final dividends declared by the Company are subject to the approval of Shareholders in general meeting. There is no assurance that any dividend or distribution will be proposed or declared in respect of any specific period.

The directors present their report and the audited financial statements of the Company for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries during the Year were the provision of consumer finance in China. There were no significant changes in the nature of the Group's principal activities during the Year.

Details of the principal activities of the Company's subsidiaries are set out in note 1 and note 2.3.1 to the financial statements.

RESULTS

The Group's profit for the Year and the Group's financial position as at December 31, 2019 are set out in the financial statements on pages 56 to 146.

DIVIDEND

The Board does not recommend the payment of a dividend for the Year (2018: Nil).

BUSINESS REVIEW

A fair review of the business of the Group for the Year, the significant events affecting the Group that have occurred since the end of 2019 and an indication of likely future development of the Group are provided in the sections headed "The Chairman's Statement", "Letter from the CEO" and "Management's Discussion and Analysis" of this report and the financial statements and the notes thereto on pages 56 to 146. A description of the principal risks and uncertainties facing the Group is provided in the sections headed "Letter from the CEO" and the "Corporate Governance Report" of this report, while an analysis using financial key performance indicators can be found in the section headed "Management's Discussion and Analysis" of this report. An account of the Company's relationship with its key stakeholders can be found in the section headed "Corporate Governance Report" of this report.

Compliance with Laws and Regulations

The Group operates in a regulatory environment which is evolving, particularly in the People's Republic of China (the "**PRC**"), and the Group is required to adapt its business operations and processes to conform with new requirements that impact its business and operations as they are promulgated. During the Year, to the best of the information, knowledge and belief of the Board, the Group has complied with the laws in the Cayman Islands, Hong Kong and the PRC applicable to the Group's business and operations and that any non-compliance should not have a material impact on the Group.

Environmental Policies and Performance

With an environmentally responsible attitude, the Group strictly abides by the laws and regulations on environmental protection. The Group promotes green office policies, advocates environmental protection and energy conservation awareness through effective control measures, and encourages employees to travel with low carbon footprint. The Group uses environmentally friendly materials for office renovations, and pays close attention to the use of resources such as electricity and water during its operations to minimize the production of domestic sewage and manage solid wastes in compliance with relevant laws and regulations, hence improving energy utilization and conservation as well as reducing emissions.

For a specific introduction and details of the Group's environmental and social policies and performances, please refer to the annual environmental, social and governance report of the Group, which will be uploaded to the websites of the Stock Exchange and the Company within three months after the publication of this annual report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The related party transactions set out in note 34 to the financial statements are connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. These transactions are fully exempt connected transactions or fully exempt continuing connected transactions under Chapter 14A of the Listing Rules.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the published audited financial statements, is set out on page 147. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the Year are set out in note 30 and note 33 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer shares of the Company (the "**Shares**") on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Year, the Company repurchased a total of 560,600 Shares on the Stock Exchange for an aggregate consideration of HK$3,414,156 (before expenses). The repurchases were effected pursuant to the repurchase mandate granted to the directors by the Shareholders on June 28, 2019, with a view to benefiting the Shareholders as a whole to enhance the net asset value per Share.

Particulars of the Shares repurchased are as follows:

Date	**Number of Shares Repurchased**	**Lowest Price Paid per Share** *(HK$)*	**Highest Price Paid per Share** *(HK$)*	**Aggregate Consideration (Before Expenses)** *(HK$)*
November 2019	363,200	5.81	6.05	2,168,890
December 2019	197,400	6.01	6.50	1,245,266

All of the repurchased Shares have been cancelled. The issued share capital of the Company was accordingly reduced by the par value of the repurchased Shares so cancelled.

During the Year, (i) the Company issued the Senior Notes and (ii) the trustees of the Share Award Scheme, pursuant to the terms of the rules and trust deeds of the Share Award Scheme, purchased on the Stock Exchange a total of 6,530,360 Shares at a total consideration of HK$60,164,206.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

TAX RELIEF AND EXEMPTION

To the best of their knowledge, information and belief, the directors are not aware of any tax relief or exemption available to Shareholders by reason of their holding Shares. Shareholders are advised to obtain their own tax advice to ascertain the availability of any such tax relief or exemption.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in note 32 to the financial statements.

There are no reserves available for distribution to Shareholders as at December 31, 2019 (2018: Nil).

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions of RMB0.4 million (2018: RMB1.6 million).

MAJOR CUSTOMERS AND SUPPLIERS

Due to the nature of our business, the Group did not have any major customers or suppliers during the Year. We purchase human resources services from employment agents, IT infrastructure hardware from computer and other hardware suppliers, software licenses from computer software suppliers, and various other services from payment transfer service suppliers, online traffic suppliers, advertising agencies, loan guarantee service suppliers and loan servicing professionals. We also pay trust management fees to the trust plans to which we subscribe subordinated tranches. The Group did not have any single customer who accounted for more than 5% of the Group's revenue during the Year.

None of the directors, their close associates or any Shareholders (which to the knowledge of the directors owns more than 5% of the Shares in issue) has any interest in the Group's five largest customers and five largest suppliers.

DIRECTORS

The directors during the Year and up to the date of this report were as follows:

Executive Directors:
Mr. Liu Sai Wang Stephen
Mr. Liu Sai Keung Thomas

Non-Executive Directors:
Mr. Ma Ting Hung
Mr. Chen Derek *(resigned on October 9, 2019)*
Ms. Liu Yang *(retired on June 28, 2019)*
Ms. Shen Jing *(appointed on October 9, 2019)*
Mr. Yip Ka Kay

Independent Non-Executive Directors:
Mr. Chen Penghui
Dr. Seek Ngee Huat
Mr. Wu Chak Man

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Board is of the view that all of the independent non-executive directors meet the guidelines for assessing independence as set out in rule 3.13 of the Listing Rules and considers them to be independent.

The non-executive directors, including independent non-executive directors, are now appointed for an initial term of one year and thereafter from year to year and all of the directors, including executive directors, are subject to retirement by rotation and re-election in accordance with the Articles.

In accordance with Article 109 of the Articles, Mr. Liu Sai Keung Thomas, Mr. Yip Ka Kay and Dr. Seek Ngee Huat will retire by rotation. Mr. Liu Sai Keung Thomas and Mr. Yip Ka Kay being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company to be held on June 1, 2020 (the "**AGM**"). Dr. Seek Ngee Huat has advised the Board that he will not offer himself for re-election at the AGM.

In accordance with Article 113 of the Articles, Ms. Shen Jing, who was appointed a non-executive director on October 9, 2019 to fill a casual vacancy, will retire and, being eligible, offer herself for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND EMPLOYEES' REMUNERATION AND POLICY

Directors' and senior management's remuneration is determined by the remuneration committee and the Board. No director has waived or agreed to waive any emoluments.

As at December 31, 2019, the Group had a total of 745 employees.

The Group seeks to attract, retain and motivate high quality staff to be able to continuously develop its business. Remuneration packages are designed to ensure comparability within the market and competitiveness with other companies engaged in the same or similar industry with which the Group competes and other comparable companies. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Group's overall profits, performance and achievements.

The employees of the Group's subsidiaries which operate in China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme.

The Group operates a defined scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees in Hong Kong who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the scheme.

The Company operates a number of share incentive schemes for the purpose of providing share based incentives and rewards to eligible persons (see section headed "Share Incentive Schemes" below).

Details of the remuneration of directors and senior management and the five highest paid individuals are set out in note 10, note 34(f) and note 11, respectively, to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

During the Year, none of the directors or their connected entities had an interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' COMPETING INTERESTS

So far as is known to the directors, as at December 31, 2019, none of the directors or their respective associates had any interest in a business, apart from the businesses of the Group, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at December 31, 2019, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required pursuant to the Model Code to be notified to the Company and the Stock Exchange are as follows:

Long positions in Shares and underlying Shares

			Number of underlying Shares pursuant to		Percentage of total
Name of Directors	Nature of interest	Number of Shares	share options	share awards	issued Shares[1]
Ma Ting Hung	Beneficial interest	8,450,000			37.93%
	Interest in controlled corporations[2]	176,922,097	4,000,000		
Liu Sai Wang Stephen	Beneficial interest			1,200,000	21.66%
	Interest in controlled corporations[3]	59,942,173	46,978,816		
Liu Sai Keung Thomas	Beneficial interest		2,100,000	600,000	2.91%
	Interest in controlled corporations[4]	6,828,585	5,000,000		
Yip Ka Kay	Interest in controlled corporations[5]	13,574,502			2.72%
Wu Chak Man	Beneficial interest	2,730,289			0.55%
Seek Ngee Huat	Interest in controlled corporations[6]	200,000			0.04%

Notes:

(1) The calculation is based on (i) the aggregate number of Shares and, if any, underlying Shares pursuant to share options and share awards and (ii) the total number of 499,203,789 Shares in issue as at December 31, 2019.

(2) Ma Ting Hung controls 100% of, and is a director of, each of Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited, each of which has a beneficial interest in 84,719,154 Shares, 46,607,010 Shares and 45,595,933 Shares, respectively. Skyworld-Best Limited also has a beneficial interest in share options to subscribe for 4,000,000 Shares.

(3) Liu Sai Wang Stephen controls 50% of, and is a director of, Magic Mount Limited, which has a beneficial interest in 27,093,858 Shares, and controls 100% of, and is a director of, each of Perfect Castle Development Limited and Union Fair International Limited, each of which has a beneficial interest in 27,523,810 Shares and 5,324,505 Shares, respectively. Perfect Castle Development Limited also has a beneficial interest in share options to subscribe for 46,978,816 Shares.

(4) Liu Sai Keung Thomas controls 100% of, and is a director of, International Treasure Limited which has a beneficial interest in 6,828,585 Shares and share options to subscribe for 5,000,000 Shares.

(5) Yip Ka Kay controls 50% of, and is a director of, CPED (KY) Limited, which has a beneficial interest in 4,015,628 Shares. Yip Ka Kay is also the sole director and the sole shareholder of NM Strategic Partners, LLC which manages NM Strategic Focus Fund L.P., which has a beneficial interest in 9,558,874 Shares.

(6) Seek Ngee Huat controls 50% of, and is a director of, Junestar Capital Limited which has a beneficial interest in 200,000 Shares.

Save as disclosed herein and in the section headed "Board of Directors and Senior Management", and so far as is known to the directors, as at December 31, 2019:

(a) none of the directors or the chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required pursuant to the Model Code to be notified to the Company and the Stock Exchange; and

(b) none of the directors was a director or employee of a company which had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above and in the section headed "Share Incentive Schemes" below, at no time during the Year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate of the Group.

PERMITTED INDEMNITY PROVISION

Article 192 of the Articles provides, amongst other things, that every director of the Company for the time being acting in relation to the affairs of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

The Company has arranged Directors & Officers Liability Insurance for the directors and officers of the Company and its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

SHARE INCENTIVE SCHEMES

Save as disclosed herein, the Company has not entered into any equity-linked agreement and no equity-linked agreement subsisted as at the date of this report.

Pre-IPO Share Option Schemes

The Company has adopted three pre-IPO share option schemes which were approved by the Board on March 1, 2016 (the "**2016 ESOP**"), March 1, 2018 (the "**2017 ESOP I**") and March 1, 2018 (the "**2017 ESOP II**", together with the 2016 ESOP and the 2017 ESOP I, the "**Pre-IPO Share Option Schemes**"), respectively. The Pre-IPO Share Option Schemes are not subject to the provisions of Chapter 17 of the Listing Rules.

The purpose of the Pre-IPO Share Option Schemes is to advance the interests of the Company and its shareholders by providing key employees, directors and consultants of the Group a performance incentive for the purpose of continuing and improving their services with the Group and a motivational force to improve the operating efficiency of the Group. The Pre-IPO Share Option Schemes also help to enhance the key employees, directors and consultants' contribution to profits of the Group by encouraging capital accumulation and share ownership and direct participation in the success of the Group and are an effective tool to retain such key employees.

The following table discloses in respect of the outstanding share options granted under the Pre-IPO Share Option Schemes:

(a) the name of the director, in the case of outstanding share options granted to a director or a company or companies controlled by such director and the category of persons, in the case of outstanding share options granted to persons who are not directors or companies controlled by director;

(b) in the case of a director, the number of share options granted to such director or companies controlled by such director on an individual basis and in the case of other persons, the number of share options granted on an aggregate basis;

(c) the number of share options exercised during the Year;

(d) the date of grant of the share options;

(e) the exercise period (after taking into account any vesting period) of the share options;

(f) the exercise price of the share options; and

(g) the approximate percentage that the Shares issuable under the share options represent of the total Shares in issue as at December 31, 2019.

Name or category of participant	Options outstanding as at December 31, 2019	Exercised during the Year	Lapsed during the Year	Date of grant	Exercise period	Exercise price per Share (US$)	Approximate percentage of issued Shares[1]
2016 ESOP							
Director							
Liu Sai Keung Thomas [2]	2,366,430	Nil	Nil	01-03-2016	31-12-2016 to 30-11-2021	0.8735	1.42%
	2,366,430	Nil	Nil	01-03-2016	31-12-2017 to 30-11-2021	0.8735	
	2,367,140	Nil	Nil	01-03-2016	31-12-2018 to 30-11-2021	0.8735	
Other employees							
In aggregate	171,850	Nil	Nil	20-11-2017	20-11-2018 to 19-11-2022	0.8735	0.10%
	171,850	Nil	Nil	20-11-2017	20-11-2019 to 19-11-2022	0.8735	
	171,902	Nil	Nil	20-11-2017	20-11-2020 to 19-11-2022	0.8735	
Other employees							
In aggregate	116,655	Nil	Nil	20-09-2016	20-09-2017 to 19-09-2021	0.8735	0.07%
	116,655	Nil	Nil	20-09-2016	20-09-2018 to 19-09-2021	0.8735	
	116,690	Nil	Nil	20-09-2016	20-09-2019 to 19-09-2021	0.8735	
Other employees							
In aggregate	2,791,142	85,667	1,042,867	01-03-2016	31-12-2016 to 30-11-2021	0.8735	1.68%
	2,791,142	85,667	1,042,867	01-03-2016	31-12-2017 to 30-11-2021	0.8735	
	2,792,318	85,666	1,042,866	01-03-2016	31-12-2018 to 30-11-2021	0.8735	
Other employees							
In aggregate	156,650	10,000	Nil	17-10-2016	17-10-2017 to 16-10-2021	0.8735	0.10%
	166,650	Nil	Nil	17-10-2016	17-10-2018 to 16-10-2021	0.8735	
	166,700	Nil	Nil	17-10-2016	17-10-2019 to 16-10-2021	0.8735	
Other employees							
In aggregate	0	Nil	133,320	01-09-2017	01-09-2019 to 31-08-2022	0.8735	0.00%
	0	Nil	133,360	01-09-2017	01-09-2020 to 31-08-2022	0.8735	
Other employees							
In aggregate	11,465	Nil	7,433	01-04-2016	01-04-2017 to 31-03-2021	0.8735	0.01%
	11,465	Nil	7,433	01-04-2016	01-04-2018 to 31-03-2021	0.8735	
	11,470	Nil	7,434	01-04-2016	01-04-2019 to 31-03-2021	0.8735	
Other employees							
In aggregate	0	10,000	39,995	03-05-2016	03-05-2017 to 02-05-2021	0.8735	0.00%
	0	Nil	49,995	03-05-2016	03-05-2018 to 02-05-2021	0.8735	
	0	Nil	50,010	03-05-2016	03-05-2019 to 02-05-2021	0.8735	
Other employees							
In aggregate	0	Nil	33,330	20-03-2017	20-03-2018 to 19-03-2022	0.8735	0.00%
	0	Nil	33,330	20-03-2017	20-03-2019 to 19-03-2022	0.8735	
	0	Nil	33,340	20-03-2017	20-03-2020 to 19-03-2022	0.8735	

Name or category of participant	Options outstanding as at December 31, 2019	Exercised during the Year	Lapsed during the Year	Date of grant	Exercise period	Exercise price per Share (US$)	Approximate percentage of issued Shares[1]
2017 ESOP I							
Director							
Liu Sai Wang Stephen [3]	8,954,665	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	5.38%
	8,954,665	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	8,954,667	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
Other employees							
In aggregate	6,551,000	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	3.94%
	6,551,000	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	6,551,000	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
2017 ESOP II							
Director							
Liu Sai Wang Stephen [3]	6,704,939	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	4.03%
	6,704,939	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	6,704,941	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
Ma Ting Hung [4]	1,333,333	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	0.80%
	1,333,333	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	1,333,334	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	
Other employees							
In aggregate	666,666	Nil	Nil	10-05-2018	09-05-2019 to 09-05-2023	1.6123	0.40%
	666,666	Nil	Nil	10-05-2018	09-05-2020 to 09-05-2023	1.6123	
	666,668	Nil	Nil	10-05-2018	09-05-2021 to 09-05-2023	1.6123	

Notes:

(1) The percentage calculations are based on the total number of 499,203,789 Shares in issue as at December 31, 2019.

(2) Liu Sai Keung Thomas has a personal interest in 2,100,000 share options and a corporate interest in 5,000,000 share options, granted under the 2016 ESOP. The corporate interest is held through International Treasure Limited, a company that is 100% controlled by Liu Sai Keung Thomas.

(3) Liu Sai Wang Stephen has a corporate interest in an aggregate of 46,978,816 share options granted under the 2017 ESOP I and the 2017 ESOP II. The corporate interest is held through Perfect Castle Development Limited, a company that is 100% controlled by Liu Sai Wang Stephen.

(4) Ma Ting Hung has a corporate interest in 4,000,000 share options granted under the 2017 ESOP II. The corporate interest is held through Skyworld-Best Limited, a company that is 100% controlled by Ma Ting Hung.

The share options granted under the 2017 ESOP II were divided into three tranches, being series A, series B and series C. The series B and series C share options granted pursuant to the 2017 ESOP II lapsed upon completion of the listing of the Shares on the Stock Exchange (the “**Listing**”) on June 21, 2018 (the “**Listing Date**”).

No share options have been granted under the Pre-IPO Share Option Schemes after the Listing and, save as disclosed above, no share option granted under the Pre-IPO Share Option Schemes was exercised, lapsed or cancelled during the Year. The Company will not grant any further share options under the Pre-IPO Share Option Schemes.

Post-IPO Share Option Scheme

The Company adopted a post-IPO share option scheme on May 10, 2018 (the "**Post-IPO Share Option Scheme**"). The Post-IPO Share Option Scheme is subject to the provisions of Chapter 17 of the Listing Rules.

Pursuant to the Post-IPO Share Option Scheme, the Company may grant share options to eligible persons to subscribe for Shares subject to the terms and conditions stipulated therein. A summary of some of the principal terms of the Post-IPO Share Option Scheme is as follows.

(a) *Purpose*: To provide eligible persons, including employees, directors, officers, consultants, advisors, distributors, contractors, customers, suppliers, agents, business partners and service providers, with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and Shareholders as a whole. The Post-IPO Share Option Scheme provides the Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to eligible persons.

(b) *Eligible persons*: The eligible persons include employees and directors of the Company and any of its subsidiaries (including their respective executive and non-executive directors), business associates and advisers who will provide or have provided services to the Group.

(c) *Total number of Shares available for issue*: The total number of Shares which may be issued upon the exercise of all outstanding share options granted under the Post-IPO Share Option Scheme and any other schemes of the Company is 49,730,386 Shares, being not more than 10% of the Shares in issue on the Listing Date.

(d) *Consideration*: a sum of HK$1.00 is payable by accepting eligible persons within 20 business days from the date on which the letter of grant is delivered.

(e) *Maximum entitlement of each eligible person*: The total number of Shares issued and to be issued upon the exercise of the share options granted to an eligible person (including any exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of Shares in issue at the date of grant.

(f) *Exercise period*: The period during which a share option may be exercised is determined by the Board at its absolute discretion, except that no share option may be exercised after 10 years from the date of grant.

(g) *Performance Target*: The Board may at is sole discretion specify, as part of the terms and conditions of any share option, such performance conditions that must be satisfied before the share option can be exercised.

(h) *Subscription price*: The subscription price payable in respect of each Share shall be not less than the greater of (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of grant (which must be a business day); (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

(i) *Remaining life*: The Post-IPO Share Option Scheme remains in force until June 20, 2028 unless otherwise terminated in accordance with the terms stipulated therein.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

No share options have been granted or agreed to be granted under the Post-IPO Share Option Scheme as at December 31, 2019.

Share Award Scheme

The Company adopted the Share Award Scheme on January 11, 2019, pursuant to which the Company may grant share awards ("**Awards**") in respect of up to 24,974,369 Shares ("**Award Shares**"). The Share Award Scheme is a discretionary scheme of the Company and does not constitute a share option scheme under and is not subject to the provisions of Chapter 17 of the Listing Rules. The purpose of the Share Award Scheme is to align the interests of eligible persons with those of the Group and to help encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. Further details of the Share Award Scheme are set out in the announcement of the Company dated January 11, 2019.

During the Year, a total of 6,530,360 Award Shares were awarded to eligible persons pursuant to the Share Award Scheme, and out of which 1,800,000 Award Shares were awarded to connected persons.

As at December 31, 2019, the trustees of the trusts established to administer the Share Award Scheme held a total of 6,530,360 Shares which can be applied to satisfy Awards granted under the Share Award Scheme to connected persons and non-connected persons.

The movements in the Award Shares under the Share Award Scheme during the Year are as follows:

		Number of Award Shares		
Grantees	**Date of award**	**Granted during the Year**	**Vested during the Year**	**As at December 31, 2019**
Liu Sai Wang Stephen	26–03–2019	1,200,000*	Nil	1,200,000
Liu Sai Keung Thomas	26–03–2019	600,000*	Nil	600,000
Non-connected Persons	26–03–2019	4,645,360*	Nil	4,645,360
Non-connected Person	26–03–2019	85,000#	Nil	85,000

* The Award Shares shall vest in four tranches as follows:

(a) one-quarter, on March 25, 2020;

(b) one-quarter, on March 25, 2021;

(c) one-quarter, on March 25, 2022; and

(d) one-quarter, on March 25, 2023.

The vesting of the Award Shares was amended with effect from 1 August 2019 as follows:

(a) 56,695 Shares, on March 25, 2021; and

(b) 28,305 Shares, on March 25, 2022.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at December 31, 2019, the interests and short positions of the substantial Shareholders and other persons in Shares or underlying Shares, as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long positions in Shares and underlying Shares:

Name of Shareholder	Nature of interest	Number of Shares	Number of underlying Shares pursuant to share options/ share awards*	Percentage of total issued Shares (1)
Ma Ting Hung	Beneficial interest	8,450,000		37.93%
	Interest in a controlled corporation (2)	176,922,097	4,000,000	
Skyworld-Best Limited	Beneficial interest (2)	84,719,154	4,000,000	17.77%
Wealthy Surplus Limited	Beneficial interest (2)	46,607,010		9.34%
Glory Global International Limited	Beneficial interest (2)	45,595,933		9.13%
Liu Sai Wang Stephen	Beneficial interest		1,200,000*	21.66%
	Interest in a controlled corporation (3)	59,942,173	46,978,816	
Kwok Lim Ying	Interest in a controlled corporation (4)	27,093,858		5.43%
Perfect Castle Development Limited	Beneficial interest (3)	27,523,810	46,978,816	14.92%
Magic Mount Limited	Beneficial interest (3) (4)	27,093,858		5.43%
Kwok Peter Viem	Interest in a controlled corporation (5)	50,740,770		10.16%
Kwok Chang Shiu Feng	Interest in a controlled corporation (5)	50,740,770		10.16%
High Loyal Management Limited	Beneficial interest	50,740,770		10.16%
EastWest Trust Company Limited	Interest in a controlled corporation (6)	41,339,885		8.28%
Cavamont Holdings Limited	Interest in a controlled corporation (7)	41,339,885		8.28%
Cavamont Investments Limited	Interest in a controlled corporation (8)	41,339,885		8.28%
Cavenham Private Equity and Directs	Interest in controlled corporations (9)	41,339,885		8.28%
CPED Asia (No.1) Limited	Beneficial interest (9)	37,324,257		7.48%
David Bonderman	Interest in a controlled corporation (10)	31,011,598		6.21%
James George Coulter	Interest in a controlled corporation (10)	31,011,598		6.21%
TPG Group Holdings (SBS) Advisors, Inc.	Interest in a controlled corporation (11)	31,011,598		6.21%
TPG Group Holdings (SBS) Advisors, LLC	Interest in a controlled corporation (12)	31,011,598		6.21%
TPG Group Holdings (SBS), L.P.	Interest in a controlled corporation (13)	31,011,598		6.21%

Name of Shareholder	Nature of interest	Number of Shares	Number of underlying Shares pursuant to share options/ share awards*	Percentage of total issued Shares [1]
TPG Holding III-A, Inc.	Interest in a controlled corporation [14]	31,011,598		6.21%
TPG Holdings III-A, L.P.	Interest in a controlled corporation [15]	31,011,598		6.21%
TPG Holdings III, LP	Interest in a controlled corporation [16]	31,011,598		6.21%
TPG Growth III SF AIV GenPar Advisors, Inc.	Interest in a controlled corporation [17]	31,011,598		6.21%
TPG Growth III SF AIV GenPar, LP	Interest in a controlled corporation [18]	31,011,598		6.21%
TPG Growth III SF Finance, Limited Partnership	Interest in a controlled corporation [19]	31,011,598		6.21%
TPG Growth III SF Pte. Ltd	Beneficial interest	31,011,598		6.21%
Acheson Limited	Trustee [20]	1,810,000	24,117,602	5.19%
Chan Kin	Interest in a controlled corporation [21]	59,942,173		12.01%
Argyle Street Management Holdings Limited	Interest in controlled corporations [22]	59,942,173		12.01%
Argyle Street Management Limited	Interest in controlled corporations [23]	59,942,173		12.01%
ASM Connaught House General Partner II Limited	Interest in a controlled corporation [24]	59,942,173		12.01%
ASM Connaught House Fund II LP	Interest in a controlled corporation [24]	59,942,173		12.01%
ASM Connaught House General Partner Limited	Interest in a controlled corporation [25]	59,942,173		12.01%
ASM Connaught House Fund LP	Interest in a controlled corporation [25]	59,942,173		12.01%
Yinchuan Street Limited	Security interest in shares [26]	59,942,173		12.01%

Notes:

(1) The calculation is based on (i) the aggregate number of Shares and, if any, underlying Shares pursuant to share options and share awards, and (ii) the total number of 499,203,789 Shares in issue as at December 31, 2019.

(2) Ma Ting Hung controls 100% of each of Skyworld-Best Limited, Wealthy Surplus Limited and Glory Global International Limited.

(3) Liu Sai Wang Stephen controls 100% of Perfect Castle Development Limited and Union Fair International Limited, which has a beneficial interest in 5,324,505 Shares. Liu Sai Wang, Stephen also controls 50% of Magic Mount Limited.

(4) Kwok Lim Ying controls 50% of Magic Mount Limited.

(5) Kwok Peter Viem and Kwok Chang Shiu Feng each controls 50% of High Loyal Management Limited.

(6) EastWest Trust Company Limited controls 64.17% of Cavamont Holdings Limited.

(7) Cavamont Holdings Limited controls 100% of Cavamont Investments Limited.

(8) Cavamont Investments Limited controls 100% of Cavenham Private Equity and Directs.

(9) Cavenham Private Equity and Directs controls 100% of CPED Asia (No.1) Limited and 50% of CPED (KY) Limited, which has a beneficial interest in 4,015,628 Shares.

(10) David Bonderman and James George Coulter each controls 50% of TPG Group Holdings (SBS) Advisors, Inc.

(11) TPG Group Holdings (SBS) Advisors, Inc. controls 100% of TPG Group Holdings (SBS) Advisors, LLC.

(12) TPG Group Holdings (SBS) Advisors, LLC controls 100% of TPG Group Holdings (SBS), L.P.

(13) TPG Group Holdings (SBS), L.P. controls 100% of TPG Holdings III-A, Inc.

(14) TPG Holdings III-A, Inc. controls 100% of TPG Holdings III-A, L.P.

(15) TPG Holdings III-A, L.P. controls 100% of TPG Holdings III, LP.

(16) TPG Holdings III, LP controls 100% of TPG Growth III SF AIV GenPar Advisors, Inc.

(17) TPG Growth III SF AIV GenPar Advisors, Inc. controls 100% of TPG Growth III SF AIV GenPar, LP.

(18) TPG Growth III SF AIV GenPar, LP controls 100% of TPG Growth III SF Finance, Limited Partnership.

(19) TPG Growth III SF Finance, Limited Partnership controls 100% of TPG Growth III SF Pte. Ltd.

(20) Acheson Limited is an independent trustee which holds Shares and share options relating to Shares on trust for beneficiaries who are eligible persons under the Company's share option schemes and Share Award Scheme.

(21) Chan Kin owns 50.43% of Argyle Street Management Holdings Limited.

(22) Argyle Street Management Holdings Limited owns 100% of each of Argyle Street Management Limited and ASM Connaught House General Partner Limited, and 70% of ASM Connaught House General Partner II Limited.

(23) Argyle Street Management Limited controls each of ASM Connaught House General Partner Limited, ASM Connaught House Fund LP, ASM Connaught House General Partner II Limited, ASM Connaught House Fund II LP and ASM Connaught House (Master) Fund II LP by virtue of its position as an investment manager.

(24) ASM Connaught House General Partner II Limited is the general partner of ASM Connaught House Fund II LP and ASM Connaught House (Master) Fund II LP, and owns 58.06% of ASM Connaught House Fund II LP.

(25) ASM Connaught House General Partner Limited is general partner of ASM Connaught House Fund LP.

(26) Yinchuan Street Limited is owned by Caroline Hill Limited as to 66% and Albany Road Limited as to 34%. Caroline Hill Limited is wholly-owned by ASM Connaught House (Master) Fund II LP, which is wholly-owned by ASM Connaught House Fund II LP. Albany Road Limited is wholly owned by ASM Connaught House Fund LP.

Save as disclosed herein and in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above, and so far as is known to the directors of the Company, as at December 31, 2019, no person had an interest or a short position in the Shares or underlying Shares required to be recorded in the register to be kept under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued Shares is held by the public as at the date of this report.

COMPLIANCE ADVISER

The Company has appointed Guotai Junan Capital Limited as its compliance advisor to provide advice and guidance in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with rule 3.21 of the Listing Rules with responsibility for reviewing and providing supervision over the Group's financial reporting process. The audit committee comprises two independent non-executive directors, Mr. Wu Chak Man and Mr. Chen Penghui, and a non-executive director, Mr. Yip Ka Kay.

The audit committee has reviewed the financial statements for the Year with senior management and the external auditor of the Company.

AUDITOR

PwC, the auditor of the Company, shall retire, and a resolution for its re-appointment as auditor of the Company will be proposed, at the AGM.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Listing, after deducting related expenses and underwriting fees, were approximately HK$1,400 million. After the Listing, the proceeds have been applied for the purposes described in the "Future Plans and Use of Proceeds" as set out in the prospectus dated June 7, 2018 relating to the Listing. As of December 31, 2019, the Company had utilized all the net proceeds from the Listing. The actual use of net proceeds up to December 31, 2019 are set out below:

	Planned amount		Accumulated Utilized amount		Utilized amount during the Year	
	HK$ million	*RMB million*	***HK$ million***	***RMB million***	***HK$ million***	***RMB million***
Capital base strengthening	980	855	**980**	**855**	**—**	**—**
Research and technology capabilities enhancement	280	245	**280**	**245**	**152**	**134**
General corporate purposes	140	122	**140**	**122**	**—**	**—**
	1,400	1,222	**1,400**	**1,222**	**152**	**134**

On behalf of the Board
Ma Ting Hung
Chairman

Hong Kong, March 23, 2020

Independent Auditor's Report

To the Shareholders of VCREDIT Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of VCREDIT Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 56 to 146, which comprise:

- the consolidated statement of comprehensive income for the year ended December 31, 2019;
- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Professional Accountants ("**IESBA Code**"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Measurement of fair value of loans to customers
- Measurement of expected credit losses
- Consolidation assessment of, and disclosures about, structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of fair value of loans to customers Please refer to the following notes to the consolidated financial statements: Notes 2.8, 3.2 and 17 As at December 31, 2019, the Group's fair value of loans to customers amounted to RMB9,458 million, and fair value loss of RMB2,058 million was recognized in the Group's consolidated statement of comprehensive income for the year ended December 31, 2019. The preparation of the consolidated financial statements in conformity with IFRS 9 requires the Group to make considerable judgements, assumptions, and interpretations of the standard and requires the use of discounted cash flow in the development of fair value models to estimate loans to customers. The method to determine discount rate for each loan is a significant management judgment. The fair value model of loans to customers under IFRS 9 is a highly complex process and involved considerable assumptions and interpretations, and accordingly, we included this as a key audit matter.	Our procedures included: 1. We understood the relevant internal controls over the selection and approval of the accounting policies and fair value model methodologies; 2. We reviewed the modelling methodology for measurement of fair value of loans to customers, and assessed the reasonableness of the key parameters calculations, judgements and assumptions in relation to the models; 3. We reviewed the encoding for model measurement as a whole, tested whether or not the measurement models reflect the modelling methodology documented by the management, and examined the major data inputs to assess their accuracy and completeness; 4. We assessed whether the disclosures in the consolidated financial statements, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Group's exposure to valuation risk with reference to the requirements of the prevailing accounting standards. Based on the procedures we have performed, in the context of the inherent uncertainties associated with measurement of fair value of loans to customers, the models, the parameters and the key assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses Please refer to the following notes to the consolidated financial statements: Notes 2.8, 3.1, 12, 18 and 19 For the year ended December 31, 2019, the Group's expected credit losses ("**ECL**") amounted to RMB309 million as disclosed in the Group's consolidated statement of comprehensive income. The implementation of IFRS 9 requires the Group to make considerable judgements, assumptions, and interpretations of the standard and requires the use of numerous parameters and data inputs in the development of complex models to estimate the impairment losses on its contract assets, guarantee receivables and guarantee liabilities using the expected credit losses concept. Significant management judgments and assumptions primarily included the following: (1) Choosing appropriate models and assumptions and determination of relevant key measurement parameters; (2) Criteria for determining whether or not there was a significant increase in credit risk and definition of default; (3) Economic variables for forward-looking measurement, and the application of economic scenarios and relative weightings; (4) The estimated future cash flows for loans to customers in stage 3. The ECL model under IFRS 9 is a highly complex process and involved significant management judgments and interpretations, and accordingly, we included this as a key audit matter.	Our procedures included: 1. We understood the relevant internal controls over the selection and approval of the accounting policies and ECL model methodologies; 2. We reviewed the modelling methodology for measurement of expected credit losses, and assessed the reasonableness of the key parameters calculations, judgements and assumptions in relation to the models. We examined the calculation for model measurement on selected samples and tested whether or not the measurement model reflects the modelling methodology documented by the management; 3. We reviewed the entry of key data inputs for the ECL models on selected samples, including historical data and data on the measurement date, to assess their completeness and accuracy; 4. We selected samples, taken into consideration of the overdue status of the borrowers, to assess the appropriateness of the management's determination of significant increase in credit risk of contract assets, guarantee receivables and guarantee liabilities; 5. We reviewed retrospective testing of the economic indicator forecasts used in the measurement of expected credit losses, and reviewed sensitivity testing of forecasting of forward-looking economic indicators, economic scenarios and weightings. Based on the procedures we have performed, in the context of the inherent uncertainties associated with a measurement of expected credit losses for contract assets, guarantee receivables and guarantee liabilities, the models, the parameters and the key assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation assessment of, and disclosures about, structured entities Please refer to the following notes to the consolidated financial statements: Notes 2.3.1(b) and 3.7 As at December 31, 2019, structured entities primarily included trust plans. The Group's consolidated structured entities amounted to RMB9.85 billion as disclosed in Note 2.3.1(b). The amount of structured entities was significant and the assessment on the scope of consolidation involved management's judgement. Management had determined whether the structured entities should be consolidated based on their assessment on each of the three elements of control: 1-the Group's power to direct relevant activities of structured entities; 2-its exposure to variable returns from its involvement with; and 3-its ability to use its power to affect the amount of its returns from these structured entities in accordance with International Financial Reporting Standard No.10-Consolidated Financial Statements ("**IFRS 10**"). The significant judgement exercised by management in assessing whether the Group had control of structured entities and the amount of such structured entities resulted in this matter being identified as a key audit matter.	Our audit procedures included: 1. We obtained understanding of the related internal controls that management adopted on the consolidation assessment of structured entities; 2. We analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities; 3. We inspected contract terms related to the Group's variable returns from these selected structured entities, including service fee, guarantee premium and expected residual returns, and agreed this information to the corresponding inputs used in management's assessment; 4. We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its services provided to the structured entities, and compared our assessment results with management's assessment outcomes; 5. We evaluated and checked the appropriateness of disclosures in the consolidated financial statements relating to structured entities. Based on the procedures we have performed, management's consolidation assessment in relation to structured entities was reasonable and the disclosures were appropriate.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mang Kong Fung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March, 2020

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Continuing operations			
Interest type income	5	2,642,081	2,930,339
Less: interest expenses	5	(862,174)	(974,770)
Net interest type income	5	1,779,907	1,955,569
Loan facilitation service fees	6	1,247,377	269,832
Other income	7	837,073	511,182
Total income		3,864,357	2,736,583
Origination and servicing expenses	8	(709,509)	(865,581)
Sales and marketing expenses	8	(32,229)	(26,117)
General and administrative expenses	8	(505,424)	(502,369)
Research and development expenses	8	(92,392)	(74,058)
Credit impairment losses	12	(309,101)	(54,348)
Fair value change of loans to customers		(2,058,482)	(1,130,058)
Other (losses)/gains, net	13	(2,851)	17,583
Operating profit		154,369	101,635
Share of net profit/(loss) of associates accounted for using the equity method	21	9,962	(2,900)
Fair value loss of convertible redeemable preferred shares		—	(1,047,156)
Profit/(Loss) before income tax		164,331	(948,421)
Income tax expense	14	(99,541)	(78,532)
Profit/(Loss) for the year attributable to:			
Owners of the Company		64,790	(1,026,953)
Non-controlling interests		—	—
		64,790	(1,026,953)

For the year ended December 31, 2019

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss			
Exchange difference on translation of financial statements		**(485)**	44,105
Items that will not be reclassified to profit or loss			
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss		**—**	(14,109)
Total comprehensive income/(loss) for the year, net of tax		**64,305**	(996,957)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**64,305**	(996,957)
Non-controlling interests		**—**	—
		64,305	(996,957)
Basic earnings/(loss) per share	*15*	**0.13**	(2.93)
Diluted earnings/(loss) per share	*15*	**0.13**	(2.93)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at December 31, 2019

	Note	As at December 31, 2019 RMB'000	2018 RMB'000
Assets			
Cash and cash equivalents	16(a)	**2,169,522**	1,050,111
Restricted cash	16(b)	**264,584**	127,902
Loans to customers at fair value through profit or loss	17	**9,457,673**	8,863,246
Contract assets	18	**523,022**	154,143
Guarantee receivables	19	**621,248**	206,146
Financial assets at fair value through profit or loss	20	**280**	—
Investments accounted for using the equity method	21	**37,430**	27,684
Deferred income tax assets	22	**468,256**	413,117
Right-of-use assets	23	**25,824**	N/A
Intangible assets	24	**22,175**	16,814
Property and equipment	25	**51,196**	59,066
Other assets	26	**648,147**	759,446
Total assets		**14,289,357**	11,677,675
Liabilities			
Borrowings	27	**9,236,329**	8,170,224
Senior notes	28	**678,829**	—
Lease liabilities	23	**25,197**	N/A
Guarantee liabilities	19	**723,617**	204,496
Tax payable		**124,960**	85,400
Deferred income tax liabilities	22	**86,101**	77,734
Other liabilities	29	**314,046**	355,094
Total liabilities		**11,189,079**	8,892,948
Equity			
Share capital	30	**40,913**	40,938
Share premium	30	**5,581,016**	5,581,926
Treasury shares	31	**(51,774)**	—
Reserves	32	**682,913**	380,455
Accumulated losses		**(3,155,790)**	(3,218,592)
Non-controlling interests		**3,000**	—
Total equity		**3,100,278**	2,784,727
Total liabilities and equity		**14,289,357**	11,677,675

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 56 to 146 were approved by the Board of Directors on March 23, 2020 and were signed on its behalf by:

Ma Ting Hung
Director

Liu Sai Wang Stephen
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

	Attributable to owners of the Company							
			Reserves					
	Share capital *RMB'000*	Share premium *RMB'000*	Treasury shares held under share award scheme *RMB'000*	Share option reserves *RMB'000*	Translation reserve *RMB'000*	Accumulated losses *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at January 1, 2019	40,938	5,581,926	—	304,945	75,510	(3,218,592)	—	2,784,727
Change on initial application of IFRS 16 *(Note 2.2)*	—	—	—	—	—	(1,988)	—	(1,988)
Restated balance at January 1, 2019	40,938	5,581,926	—	304,945	75,510	(3,220,580)	—	2,782,739
Profit for the year	—	—	—	—	—	64,790	—	64,790
Exchange difference on translation of financial statements	—	—	—	—	(485)	—	—	(485)
Total comprehensive income for the year	—	—	—	—	(485)	64,790	—	64,305
Transactions with owners in their capacity as owners								
Shares repurchased and cancelled	(50)	(3,032)	—	—	—	—	—	(3,082)
Issuance of ordinary shares to employees	25	2,122	—	(475)	—	—	—	1,672
Shares purchases for share award scheme	—	—	(51,774)	—	—	—	—	(51,774)
Contributions from non-controlling interests	—	—	—	—	—	—	3,000	3,000
Share-based payment	—	—	—	303,418	—	—	—	303,418
Total transactions with owners in their capacity as owners	(25)	(910)	(51,774)	302,943	—	—	3,000	253,234
Balance at December 31, 2019	40,913	5,581,016	(51,774)	607,888	75,025	(3,155,790)	3,000	3,100,278

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

For the year ended December 31, 2019

	Attributable to owners of the Company						
			Reserves				
	Share capital *RMB'000*	Share premium *RMB'000*	Share option reserves *RMB'000*	Translation reserve *RMB'000*	Other reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at January 1, 2018	394,462	—	29,546	31,405	—	(1,964,023)	(1,508,610)
Changes on initial application of IFRS 9	—	—	—	—	(47,055)	(166,452)	(213,507)
Restated balance at January 1, 2018	394,462	—	29,546	31,405	(47,055)	(2,130,475)	(1,722,117)
Loss for the year	—	—	—	—	—	(1,026,953)	(1,026,953)
Exchange difference on translation of financial statements	—	—	—	44,105	—	—	44,105
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	—	—	—	—	(14,109)	—	(14,109)
Total comprehensive loss for the year	—	—	—	44,105	(14,109)	(1,026,953)	(996,957)
Transactions with owners in their capacity as owners							
Changes on initial application of par value	(379,823)	379,823	—	—	—	—	—
Issuance of ordinary shares relating to initial public offering and over-allotment, net of underwriting commissions and other issuance costs	5,982	1,145,200	—	—	—	—	1,151,182
Conversion of preferred shares to ordinary shares	20,460	4,071,483	—	—	61,164	(61,164)	4,091,943
Shares repurchased and cancelled	(155)	(15,580)	—	—	—	—	(15,735)
Issuance of ordinary shares to employees	12	1,000	(211)	—	—	—	801
Share-based payment	—	—	275,610	—	—	—	275,610
Total transactions with owners in their capacity as owners	(353,524)	5,581,926	275,399	—	61,164	(61,164)	5,503,801
Balance at December 31, 2018	40,938	5,581,926	304,945	75,510	—	(3,218,592)	2,784,727

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Operating activities			
Cash generated from operating activities	35(a)	475,438	3,329,945
Income tax paid		(107,819)	(201,706)
Net cash inflow from operating activities		367,619	3,128,239
Investing activities			
Payments for property and equipment		(16,344)	(14,557)
Payments for intangible assets		(8,114)	(5,865)
Payments for construction in progress		(3,560)	(3,973)
Payments for financial assets at fair value through profit or loss	35(b)	(637,080)	(120,000)
Proceeds from disposal of financial assets at fair value through profit or loss	35(b)	638,581	231,905
Proceeds from disposal of subsidiaries, net of cash disposed		—	8,425
Dividends from disposed subsidiaries		—	27,500
Net cash (outflow)/inflow from investing activities		(26,517)	123,435
Financing activities			
Proceeds from/(repayment to) trust plans holders, net	35(b)	1,634,864	(2,492,259)
Proceeds from issuance of ordinary shares to employees		1,672	123,376
Proceeds from issuance of senior notes	35(b)	660,602	—
Contribution from non-controlling shareholders		3,000	—
Proceeds from issuance of ordinary shares relating to the initial public offering and over-allotment, net of underwriting commissions and other issuance costs		—	1,157,300
Repayment of borrowings, net	35(b)	(622,889)	(495,850)
Interest expenses paid	35(b)	(807,258)	(978,218)
Repayment for lease liabilities	35(b)	(36,768)	N/A
Payment for shares repurchased		(54,856)	(15,735)
Payment of listing expenses		—	(64,088)
Net cash inflow/(outflow) from financing activities		778,367	(2,765,474)
Net increase in cash and cash equivalents		1,119,469	486,200
Cash and cash equivalents at the beginning of the financial year		1,050,112	568,196
Effects of exchange rate changes on cash and cash equivalents		(57)	(4,284)
Cash and cash equivalents at end of the year		2,169,524	1,050,112

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION

VCREDIT Holdings Limited (the "**Company**" or "**VCREDIT**") was incorporated in the British Virgin Islands ("**BVI**") on July 24, 2007 as an exempted company with limited liability under the laws of the BVI.

Pursuant to a shareholders' resolution dated February 6, 2018, the Company re-domiciled to the Cayman Islands by way of continuation as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended or supplemented. The re-domiciliation was completed on February 26, 2018. The current address of the Company's registered office is at 2nd Floor, The Grand Pavilion Commercial Center, 802 West Bay Road, P.O. Box 10338 Grand Cayman KY1-1003, Cayman Islands.

The Company is an investment holding company. The Company together with its subsidiaries (the "**Group**") is a technology-driven consumer financial service provider in the People's Republic of China ("**China**", or the "**PRC**"). The Group offers tailored consumer finance products to prime and near-prime borrowers who are underserved by traditional financial institutions. The Group also offers consumer finance products by facilitating transactions between borrowers and financial institutions.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since June 21, 2018 by way of its initial public offering ("**IPO**"). Upon the completion of the IPO, all of the Company's outstanding convertible redeemable preferred shares were converted into the Company's ordinary shares on a one-to-one basis. As at December 31, 2019, the number of ordinary shares in issue was 499,203,789, with a par value of HK$0.1 per share.

These consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

These consolidated financial statements have been approved and authorised for issue by the Board of Directors ("**Board**") of the Company on March 23, 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by International Accounting Standard Board ("**IASB**") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance (Cap.622).

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The Group continued to adopt the going concern basis in preparing its consolidated financial statements.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019:

- IFRS 16, "*Leases*"
- Prepayment Features with Negative Compensation — Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures — Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement — Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The adoption of the revised International Financial Reporting Standards has no significant impact on the Group in 2019.

The Group has adopted IFRS 16, "*Lease*" as issued by the IASB. The Group elected to adopt the new standard retrospectively but recognised the cumulative effect of initially applying the new standard on January 1, 2019. This is disclosed in Note 2.2. Most of the other standards and amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New Standards and Interpretations not yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group. These standards and interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 16, "*Leases*" on the Group's financial statements.

As indicated in Note 2.1, the Group adopted IFRS 16, "*Leases*" retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance of consolidated statement of financial position on January 1, 2019. The new accounting policies are disclosed in Note 2.25.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.18%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at January 1, 2019
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

(ii) Measurements of lease liabilities

	2019 RMB'000
Operating lease commitments disclosed as at December 31, 2018	76,319
(Less): short-term leases recognised on a straight-line basis as expense	(4,013)
(Less): lease commitments beginning after January 1, 2019	(16,956)
(Less): others	(2,957)
	52,393
Discounted using the lessee's incremental borrowing rate of at the date of initial application	49,179
Lease liabilities recognised as at January 1, 2019	49,179

(iii) Measurements of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iv) Adjustments recognised in the balance sheet on January 1, 2019

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

- right-of-use assets — increase by RMB49,336,000
- deferred tax assets — increase by RMB476,000
- prepayments — decrease by RMB2,621,000
- lease liabilities — increase by RMB49,179,000

The adoption of IFRS 16 increased accumulated losses on January 1, 2019 by RMB1,988,000.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

(iv) Adjustments recognised in the balance sheet on January 1, 2019 (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.3 Subsidiaries

2.3.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Structured entities through trust

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective.

The Group's structured entities include trust plans. Trust plans are managed by unaffiliated trust companies and invest the funds raised in loans to individuals (Note 17).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

Structured entities through trust (continued)

According to the trust plan agreements, the principal of the trust senior tranche holders and their expected return were fully guaranteed by the Group and the Group is entitled to the residual profits of the trusts. In addition, the trusts only invest in loans suggested by the Group which has the power to direct the activities of the trust plans. As a result, the Group is considered as the primary beneficiary of the trust plans and consolidated the trust plans' assets, liabilities, results of operations and cash flows.

China Banking and Insurance Regulatory Commission, jointly with other regulatory authorities, issued the Circular on Issuing Supplementary Provisions on Supervision of Financing Guarantee Companies (the "**Circular**") on October 24, 2019 to further regulate certain financial guarantee activities. The Circular stated that institutions engaging in the provision of services, such as borrower referrals and credit assessments, to lending institutions shall not provide any financing guarantee services, directly or indirectly (in a disguised manner), without prior approval. The Group has acknowledged the requirements set forth in the Circular and noted the potential non-compliance risk to the current business model for its trust scheme operations going forward. However, taking into consideration of current practice, related regulatory requirements and the environment underlying the trust scheme operations, the Circular may only have a limited impact on the related existing credit enhancement arrangements.

The Group is working on alternative business plans to cope with the implications of the Circular including the restructuring of future credit enhancement arrangements. Based on the Group's stress testing of the potential impact of possible changes to the future business plan, the Group does not consider the Circular will have any significant implications for the consolidated financial statements and the Group operating as a going concern. The Group will pay close attention to developments related to the new regulatory requirements related to the Circular and will continue to monitor the impact to its operations and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(a) Particulars of the principal subsidiaries of the Group as at the end of 2019 are set out below:

Company name (i)	Place of establishment and nature of legal entity	Date of incorporation	Issued capital	Percentage of attributable equity interest As at December 31, 2019	Principal activities and place of operation
Directly owned:					
Vision Credit Limited	Hong Kong/Limited liability company	March 14, 2006	HK$1,500,000,000	100%	Investment holding, Hong Kong
Asia Jumbo Group Limited	The British Virgin Islands/Limited liability company	January 6, 2016	US$1	100%	Investment holding, the British Virgin Islands
VCREDIT Venture Limited	The Cayman Islands/ Limited liability company	March 7, 2018	US$1	100%	Investment holding, the Cayman Islands
VCREDIT Investment Limited	The Cayman Islands/ Limited liability company	July 31, 2018	US$1	100%	Investment holding, the Cayman Islands
Indirectly owned (ii):					
Vision Credit Financial Technology Co., Ltd.	PRC/Wholly foreign owned enterprise	April 14, 2008	RMB689,310,000	100%	Loan facilitation service, the PRC
Shanghai Jingan Vision Small Loan Co., Ltd.	PRC/Wholly foreign owned enterprise	September 16, 2014	RMB200,000,000	100%	Microcredit service, the PRC
Qingdao Vcredit Information Technology Management Co., Ltd.	PRC/Wholly foreign owned enterprise	March 6, 2014	RMB200,000,000	100%	Technology service, the PRC

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

Company name (i)	Place of establishment and nature of legal entity	Date of incorporation	Issued capital	Percentage of attributable equity interest As at December 31, 2019	Principal activities and place of operation
Chengdu Weishi Microfinance Co., Ltd.	PRC/Wholly foreign owned enterprise	December 8, 2011	US$46,500,000	100%	Microcredit service, the PRC
Vision Credit Financing Guarantee Co., Ltd.	PRC/Wholly foreign owned enterprise	December 24, 2009	US$131,700,000	100%	Guarantee service, the PRC
Vision Financial Leasing (Suzhou) Co., Ltd.	PRC/Wholly foreign owned enterprise	July 19, 2011	US$10,000,000	100%	Financial leasing service, the PRC
Shanghai Tiantian Asset Management Co., Ltd.	PRC/Limited liability company	May 31, 2016	RMB10,000,000	100%	Asset management service, the PRC
Multi Fortune Asia Corporation	The British Virgin Islands/Limited liability company	July 3, 2018	US$1	100%	Investment holding, the British Virgin Islands
Double Kingdom International Limited	Hong Kong/Limited liability company	June 9, 2018	HK$1	100%	Investment holding, Hong Kong
Chengdu Vcredit Jiaozi Digital Technology Co., Ltd.	PRC/Limited liability company	September 26, 2019	RMB10,000,000	70%	Technology service, the PRC
Guangdong Weishi Data Technology Co., Ltd.	PRC/Limited liability company	December 16, 2019	—	100%	Technology service, the PRC

(i) All companies comprising the Group have adopted December 31, as their financial year end date.

(ii) The English names of some of the subsidiaries of the Group represent the best effort by the Company's management to translate their Chinese names, as these subsidiaries do not have official English names.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(b) The Group has consolidated certain structured entities which are primarily trust plans. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as the manager, is acting as an agent or a principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. For those trust plans where the Group provides financial guarantee, the Group therefore has obligation to fund the losses, if any, in accordance with the guarantee agreements although the Group does not have any investment in those products. The Group concludes that these structured entities shall be consolidated.

As at December 31, 2019, the trust plans consolidated by the Group amounted to RMB9,853,923,000 (December 31, 2018: RMB9,300,819,000).

Interests held by other interest holders are included in payable to trust plans holders.

Consolidated structured entities material to the Group as at December 31, 2019 and 2018 are set out below:

Name	Collective holding by the Group As at December 31 2019 RMB'000	2018 RMB'000	Assets under management As at December 31 2019 RMB'000	2018 RMB'000
Trust Plan A	457,600	2,309,418	1,681,880	8,982,508
Trust Plan C	—	60,672	—	60,672
Trust Plan E	—	11,760	—	117,640
Trust Plan J	—	—	—	5,329
Trust Plan K	—	—	40,000	34,670
Trust Plan L	—	—	—	100,000
Trust Plan M	17,600	—	6,962,500	—
Trust Plan N	785,590	—	785,590	—
Trust Plan O	7,500	—	50,000	—
Trust Plan P	10,000	—	100,000	—
Trust Plan Q	15,000	—	150,000	—
Trust Plan R	—	—	40,073	—
Trust Plan S	2,000	—	12,200	—
Trust Plan T	2,300	—	21,680	—
Trust Plan U	2,500	—	10,000	—
	1,300,090	2,381,850	9,853,923	9,300,819

The principal activities of these trust plans are as following: the trust shall, according to the wishes of all the principals, issue trust loans to borrowers recommended by a service vendor, which is agreed or endorsed by principals/beneficiaries.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

2.3.2 Separate financial statements

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceeds the total comprehensive income of the subsidiary in the period the dividends declared or if the carrying amount of the investments in the separate financial statements exceed the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Associates

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, investment in an associate is initially recognised in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

At each period end, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Functional currency and foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate ("**the functional currency**"). United States dollars ("**USD**") is the functional currency of the Company and its subsidiaries in Hong Kong. RMB is the functional currency of the subsidiaries in the PRC. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Translation of foreign currency

Foreign currency transactions are, on initial recognition, translated by applying the foreign exchange rates ruling at the transaction dates. Monetary items denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date, the resulting exchange differences are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the transaction dates. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rates ruling at the dates the fair value was determined. The exchange differences are recognised in profit or loss, except that exchange differences arising from non-monetary items (such as equities held at fair value through other comprehensive income) denominated in foreign currencies are recognised as other comprehensive income.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and the vice presidents of the Group that make strategic decisions.

Currently, the Group operates its business as one single segmentation. No separate segment information is necessary to be disclosed.

2.7 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than 3 months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

2.8 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any ECL allowance) or to the amortised cost of a financial liability. The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("**POCI**") financial assets — assets that are credit-impaired at initial recognition — the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

Measurement methods (continued)

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

Financial assets that are not 'POCI' but have subsequently become credit-impaired (or "**stage 3**"), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

2.8.1 Financial assets

(i) *Classification and subsequent measurement*

From January 1, 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI);
- Amortised cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

2.8.1 Financial assets (continued)

(i) *Classification and subsequent measurement* (continued)

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans to customers and guarantee receivables.

Classification and subsequent measurement of debt instruments depend on:

- The Group's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("**SPPI**"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("**OCI**"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated statement of comprehensive income within 'Fair value change of loans to customers' in the period in which it arises. Income from these financial assets is included in 'Interest type income' (Note 2.23(a)) using the effective interest rate concept for calculation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

2.8.1 Financial assets (continued)

(i) *Classification and subsequent measurement* (continued)

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "**SPPI test**"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

2.8.1 *Financial assets* (continued)

(i) Classification and subsequent measurement (continued)

Equity instruments (continued)

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of profit or loss.

(ii) Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and with the exposure arising from financial guarantee contracts and contract asset. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets and liabilities (continued)

2.8.1 Financial assets (continued)

(iv) *Write-off*

Financial assets (and the related ECL allowance) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

2.8.2 Financial liabilities

(i) *Classification and subsequent measurement*

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to convertible redeemable preferred shares and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

Financial guarantee contracts (see Note 2.11).

(ii) *Derecognition*

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2.9 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Determination of fair value (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

2.11.1 Guarantee liabilities

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the ECL model under IFRS 9 Financial Instruments and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial guarantee contracts (continued)

2.11.2 Guarantee receivables

Guarantee premium is collected from borrowers on monthly basis in accordance with guarantee contracts. The guarantee receivables are recognised at loan inception based on future contractual cash-in, which is the same amount as guarantee liability recognised initially. At each reporting date, the Group assesses whether there is any indicator of impairment to any individual underlying loans of the guarantee receivables and credit impairment loss is recognised using ECL model.

2.11.3 Losses from guarantee

In accordance with the principles of IFRS 15, gains from guarantee is recognised over the term of the loan. Losses from guarantee are recognised when the amount of guarantee liability determined in accordance with the ECL model is higher than the amortised balance. Aforesaid gains and losses from guarantee are recognised in losses from guarantee on a net basis for each reporting period.

2.12 Intangible assets

The Group's intangible assets are software.

Intangible assets can be recognized only when future economic benefits expected to be obtained from the use of the item will flow into the Group and its cost can be measured reliably. Intangible assets acquired separately are measured on initial recognition at cost.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development staff cost and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Intangible assets (continued)

Intangible assets with finite useful lives are subsequently amortized on the straight-line basis over the useful economic lives which are assessed by the period of bringing economic benefits for the Company. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed, and adjusted if appropriate, at least at each year end.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The expected service lives of intangible assets are as follows:

	Estimated useful lives of the assets
Software	1–10 years

2.13 Property and equipment

The Group's property and equipment mainly comprise flats, furniture and office equipment, motor vehicles, electronic equipment, leasehold improvements, and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and flats comprise primarily office premises. The estimated useful lives, depreciation rate and estimated residual value rate of flats, leasehold improvements, furniture and office equipment, electronic equipment and motor vehicles are as follows:

Type of assets	Estimated net residuals rate	Estimated useful lives of the assets	Depreciation rate
Flats	0%-5%	20 years	4.75%-5%
Leasehold Improvements	0%-5%	1–5 years	19%-100%
Furniture and office equipment	0%-5%	3–5 years	19%-33.33%
Electronic equipment	0%-5%	3–5 years	19%-33.33%
Motor vehicles	0%-5%	5 years	19%-20%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Property and equipment (continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

2.14 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

2.15 Current and deferred income tax

The income tax expense for the year comprises current and deferred tax. The income taxes are recognized in the consolidated statements of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(1) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the financial statements date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax (continued)

(2) Deferred income tax

(a) Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(b) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liabilities in relation to taxable temporary differences arising from the associate's undistributed profits are not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.17 Senior notes

Senior notes ("**the Notes**") are notes issued by the Group to raise working capital, which are measured at amortized cost. Interest expense is calculated by applying the effective interest rate to the gross carrying amount of senior notes.

2.18 Share capital and share premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Ordinary shares have a par value of HK$0.1.Initial capital injection over par value per share are accounted for share premium.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Group as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Group.

2.19 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Earnings per share (continued)

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.20 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(b) Pension obligations

The employees of the Group are mainly covered by various defined contribution pension plans. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Group makes and accrues contributions on a monthly basis to the pension plans, which are mainly sponsored by the related government authorities that are responsible for the pension liability to retired employees. Under such plans, the Group has no other significant legal or constructive obligations for retirement benefits beyond the said contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior years. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

(c) Housing benefits

The employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(d) Medical benefits

The Group makes monthly contributions for medical benefits to the local authorities in accordance with the relevant local regulations for the employees. The Group's liability in respect of employee medical benefits is limited to the contributions payable in each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group.

Share options

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by making reference to the fair value of the options granted:

- Including any market performance condition (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Share award schemes

Under the share award scheme, shares are acquired by the independent trustee from the market, at the cost of the Company and are held on trust for the selected participants until they vest. Vested shares were transferred at no cost to the selected participants. Since the grant date, the market value of the shares issued is recognized over the vesting period as an employee benefits expense, with a corresponding increase in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Share-based payments (continued)

(b) Share-based payment transactions among group entities

The grant by the Company of share options, share award schemes and over their equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the parent entity accounts.

2.22 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.23 Revenue recognition

Revenue is recognised when service is provided to the customer. Depending on the terms of the contract and the laws that apply to the contract, service may be provided over time or at a point in time. Service is provided over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains the service.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Revenue recognition (continued)

If a contract involves multiple services, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

The following is a description of the accounting policy for the principal revenue streams of the Group.

(a) Interest type income

The Group has originated and held loans mainly through the consolidated trust plans, and also directly lend to borrowers. The Group use nominal interest rate to calculate total income for each loan and recognise the income based on similar effective interest method as interest type income. The transaction costs are not added to or deducted from the initial fair value, but are immediately recognized in profit or loss on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset (including a group of financial assets) and of allocating the interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(b) Non-interest income

Loan facilitation service fees and gains from guarantee

In some arrangements where the Group is not the loan originator, the Group also generates non-interest service fees by facilitating transactions between borrowers and financial institutions. The Group determined that it is not the legal lender and legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans.

The Group's services consist of:

i) Upfront loan facilitation service: matching potential qualified borrowers to institutional investors and facilitating the execution of loan agreements between the parties;

ii) Post loan facilitation service: providing repayment processing services for the institutional investors over the loan term, including following up on the late repayments;

iii) Guarantee service provided to financial institutions, if applicable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Revenue recognition (continued)

(b) Non-interest income (continued)

Loan facilitation service fees and gains from guarantee (continued)

The Group receives upfront payments from borrowers at loan inception (if applicable) and subsequent payments over the term of the loan. The total service fees are first allocated to the guarantee liabilities (Note 2.11) at fair value which meets the definition of a financial guarantee under IFRS 9. The remaining amount is then allocated to upfront loan facilitation service and post loan facilitation service using best estimated selling price, as neither vendor specific objective evident or third party evidence of selling price is available.

Upfront loan facilitation service fee is recognized at loan inception. When the cash received does not equal to the fee allocated the upfront loan facilitation service, a “Contract Asset” or “Contract Liability” shall be recognized in the consolidated statements of financial position; Post loan facilitation fee is recognized over the term of the loan, which approximates the pattern of when the underlying services are performed. Gains from guarantee are recognized ratably over the term of the loan.

Penalty charges

Penalty charges are the additional charges upon default of borrowers. Penalty charges are recognized as other income when incurred on a case-by-case basis. The collectability of these amounts is often highly uncertain. Penalty charges are only highly probable to be collected when the actual overdue amounts are repaid and are recognized as revenue when the cash of the penalty payments is actually collected.

User membership fees

User membership provides registered users on the platform with credit report analysis service, discount vouchers for marketplace business partners, and other exclusive rights. Membership prices are determined by the Group according to various service packages, membership term and price sensitivities of different borrowers. Each service in the membership program is treated as an individual obligation and is allocated with a standalone transaction price. User membership fees are collected at inception and are recognized as other income when certain obligations are satisfied.

Referral fees

The Group generally is not the primary obligator nor have the ability to establish the price. The Group is not exposed to the credit risk when directing borrowers to third-party service provider. Upon the third-party service provider’s confirmation of a successful payment of service fee, the Group will charge the third-party service provider a fixed rate referral service fee based on the transaction amount and recognise the amount in other income on a net basis. The third-party service provider will settle the payments periodically.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Revenue recognition (continued)

(b) Non-interest income (continued)

Other consulting service fees

The Group provides consulting services to certain business partners and charges consulting service fees based on employees' actual working hours occupied and charge rates agreed in consulting service contracts. The Group recognizes other consulting service fees on accrual basis regarding to employees' consulting hours recorded in system. Business partners will settle the payments periodically.

2.24 Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2.25 Leases

For the year ended December 31, 2018, the Group applied IAS17. All leases are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

For the year ended December 31, 2019, as explained in Note 2.2, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and

- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

3.1 Measurement of the ECL allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and financial guarantee contracts is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

(i) Determining criteria for significant increase in credit risk;

- The financial instrument considered to have experienced a significant increase in credit risk if the borrower is 30 days past due on its contractual payments.

- Using other warning list as supplement criteria such as fraudulent list.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.1 Measurement of the ECL allowance (continued)

(ii) Choosing appropriate models and assumptions for the measurement of ECL;

- The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability for Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), or ECL=PD*LGD*EAD*discounted rate.

- The calculation of PD and LGD started with Group's historical information. PD and LGD are calculated by type of products, internal risk grades and loan durations as appropriate.

- EAD is calculated based on the amounts the Company expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

- The discounted rate (DF) used in the ECL calculation is the original effective interest rate or an approximation thereof.

(iii) Establishing the number and relative weighting of forward-looking scenarios for each type of product/market and the associated ECL;

- The Group used the Merton Model to estimate the relationship between ECL and forward-looking scenarios.

- Based on economic statistics, three different prospective scenarios, namely the "base", the "upside" and the "downside" are used with 80%, 10% and 10% weighting respectively.

- The Group has performed historical analysis and identified the key economic variable impacting credit risk and ECL of each portfolio. The most significant assumption used are CPI and GDP, given their impact on the loans provided by the Group.

3.2 Fair value of loans to customers

Fair value of loans to customers represent management's best estimate of discounted cash flow of the loan portfolios at the reporting date. Management is required to exercise judgement in making assumptions and estimates when calculating fair value of loans to customers. The Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from each loan before the decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of a borrower (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics similar to each loan. The methodology and assumptions used for estimating the amount and timing of future cash flows, the historical loss experience and the relevant observable data are reviewed regularly to reduce any differences between fair value change of loans to customers and actual loss experience.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Measurement of financial guarantee liability

The financial guarantee liability is an expected compensation which will be paid in the future due to guarantee contract arrangement. When measuring the financial guarantee liabilities, the Group needs to make a reasonable estimate of the amounts that the Group is required to pay in fulfilling the obligations under the guarantee contracts. Such estimates are determined based on the estimated loss rate of the loans, taking into account the underlying risk profile and historical loss record. Please refer to Note 2.11 for initial and subsequent measurement for financial guarantee liability.

3.4 Valuation of share-based compensation expenses

The fair value of share options granted are measured on the respective grant dates based on the fair value of the underlying shares. The Company has used Binomial option-pricing model to determine the fair value of the share options as at the grant date. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognizes an expense for those share options expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

The fair value of share options at the time of grant is to be expensed over the vesting period of these share-based awards based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, each vesting instalment of a graded vesting award is treated as a separate share-based award, which means that each vesting instalment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expense.

3.5 Recognition of deferred income tax assets

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Management judgement is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and the level of future taxable profits of the individual entities together with tax planning strategies.

3.6 Recognition of loan facilitation service fees

The Group considers the upfront loan facilitation services and post loan facilitation services as distinct performance obligations. However, the Group does not provide these services separately, and the third-party evidence of selling price does not exist either, as public information is not available regarding the amount of fees competitors charge for these services. As a result, the Group uses the expected-cost-plus-a-margin approach to determine its best estimate of selling prices of the different deliverables as the basis for allocation. When estimating the selling prices, the Group considers the cost related to such services, profit margin, customer demand, effect of competition, and other market factors, if applicable.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.7 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(1) Market risk — foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, USD. The Group's subsidiaries primarily operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, HKD and EUR. Therefore, foreign exchange risk primarily arose from bank deposits in the Group's Hong Kong subsidiary.

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rates against HKD, USD and EUR by 5% on the Group's profit/(loss) before income tax:

	Expected changes in profit/(loss) before income tax Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
5% appreciation of RMB	**(2,501)**	16,426
5% depreciation of RMB	**2,501**	(16,426)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index, regardless of:

- Analysis is based on static gap on reporting date, regardless of subsequent changes;
- No consideration of impact on the customers' behavior resulted from interest rate changes;

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(1) *Market risk — foreign exchange risk* (continued)

- No consideration of impact on market price resulted from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

(2) *Market risk — interest rate risk*

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavorable fluctuations which impact the overall profitability and fair value resulting in losses to the Group. The key determinants of the Group's interest rate risk arise from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in repricing risk and basis risk.

The Group's financial department and risk management department jointly monitored and managed the Group's interest rate risk.

The following tables indicate the exposure to interest rate risk for the respective period, and the expected next repricing dates (or maturity dates whichever are earlier) for the interest bearing assets and liabilities of the Group:

	As at December 31, 2019				
	Up to 3 months *RMB'000*	3 months to 1 year *RMB'000*	1–5 years *RMB'000*	Non-interest bearing *RMB'000*	Total *RMB'000*
ASSETS					
Cash and cash equivalents	2,169,522	—	—	—	2,169,522
Restricted cash	—	37,801	226,783	—	264,584
Loans to customers at fair value through profit or loss	1,045,515	7,211,103	1,201,055	—	9,457,673
Guarantee receivables	—	—	—	621,248	621,248
Financial assets at fair value through profit or loss	280	—	—	—	280
Other financial assets	—	2,670	67,227	528,618	598,515
Total financial assets	3,215,317	7,251,574	1,495,065	1,149,866	13,111,822
LIABILITIES					
Borrowings	(811,823)	(7,483,509)	(853,630)	(87,367)	(9,236,329)
Senior notes	—	—	(676,523)	(2,306)	(678,829)
Lease liabilities	(5,045)	(10,039)	(10,113)	—	(25,197)
Guarantee liabilities	—	—	—	(723,617)	(723,617)
Other financial liabilities	—	(70,671)	(32,849)	(158,766)	(262,286)
Total financial liabilities	(816,868)	(7,564,219)	(1,573,115)	(972,056)	(10,926,258)
Total interest rate sensitivity gap	2,398,449	(312,645)	(78,050)	177,810	2,185,564

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(2) *Market risk — interest rate risk* (continued)

	As at December 31, 2018				
	Up to 3 months *RMB'000*	3 months to 1 year *RMB'000*	1–5 years *RMB'000*	Non-interest bearing *RMB'000*	Total *RMB'000*
ASSETS					
Cash and cash equivalents	1,050,111	—	—	—	1,050,111
Restricted cash	—	16,929	110,973	—	127,902
Loans to customers at fair value through profit or loss	1,069,798	4,191,251	3,602,197	—	8,863,246
Guarantee receivables	—	—	—	206,146	206,146
Other financial assets	—	1,000	115,667	588,005	704,672
Total financial assets	2,119,909	4,209,180	3,828,837	794,151	10,952,077
LIABILITIES					
Borrowings	(966,174)	(5,918,622)	(1,246,480)	(38,948)	(8,170,224)
Guarantee liabilities	—	—	—	(204,496)	(204,496)
Other financial liabilities	(46,135)	(27,934)	(49,110)	(133,830)	(257,009)
Total financial liabilities	(1,012,309)	(5,946,556)	(1,295,590)	(377,274)	(8,631,729)
Total interest rate sensitivity gap	1,107,600	(1,737,376)	2,533,247	416,877	2,320,348

Sensitivities on fixed-rate financial instruments

The Group performs interest rate sensitivity analysis on profit for the Group by measuring the impact of a change in profit of financial assets and liabilities. On an assumption of a parallel shift of 50 basis points in RMB, USD, HKD and EUR interest rates, the Group calculates the changes in profit for the year on a monthly basis.

The table below illustrates the impact to profit/(loss) before income tax of the coming year as at each reporting date based on the structure of interest bearing assets and liabilities as at December 31, 2019, caused by a parallel shift of 50 basis points of RMB, USD, HKD and EUR interest rates.

	Expected changes in profit/(loss) before income tax Year ended December 31,	
	2019 ***RMB'000***	2018 *RMB'000*
+50 basis points	**9,907**	1,588
- 50 basis points	**(9,907)**	(1,588)

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(2) Market risk — interest rate risk (continued)

Sensitivities on fixed-rate financial instruments (continued)

In the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;
- All assets and liabilities are re-priced in the middle of relevant periods;
- Analysis is based on static gap on reporting date, regardless of subsequent changes;
- No consideration of impact on customers' behavior resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

(3) Credit risk

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group. The Group is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, guarantee receivables and other financial assets. The Group manages the credit risk through a comprehensive credit assessment system.

To manage this risk arising from cash and cash equivalents and restricted cash, the Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relations to these financial institutions.

The Group has formulated a complete set of credit management processes and internal control mechanisms, so as to carry out whole process management of credit business. Credit management procedures for its loans comprise the processes of credit origination, credit review, credit approval, disbursement, post-disbursement monitoring and collection. Risks arising from financial guarantees are similar to those associated with loans. Transactions of financial guarantees are subject to the same portfolio management and the same requirements for application as loans to customers.

For other assets, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Group believe that credit risk inherent in the Group's outstanding balance of other receivables has been appropriately provided.

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Credit risk measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

Measurement of ECL

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ("**SICR**") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month ECL	Lifetime ECL	Lifetime ECL

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Measurement of ECL (continued)

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. No qualitative criterion is considered by the Group since the Group monitors the risk of borrowers purely based on overdue period.

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired if the borrower is more than 90 days past due on its contractual payments. No qualitative criterion is considered by the Group since the Group monitors the risk of borrowers purely based on overdue period.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's expected loss calculations.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Measurement of ECL (continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques (continued)

- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

Forward-looking economic information is included in determining the 12-month and lifetime PD. These assumptions vary by product type.

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) ***Credit risk*** (continued)

Measurement of ECL (continued)

Measuring ECL — Explanation of inputs, assumptions and estimation techniques (continued)

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variable impacting credit risk and expected credit losses for each portfolio.

The Group applies expert judgment in the forecast of the economic variable to obtain the best estimate view of the economy over the next one year. The impact of the economic variable on the PD has been determined by performing Euclidean Distance analysis to understand the impact changes in the variable have had historically on default rates.

In addition to the base economic scenario, the Group also obtained other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date and at 31 December 2019, the Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) *Credit risk* (continued)

Measurement of ECL (continued)

Forward-looking information incorporated in the ECL models (continued)

The assessment of ECL incorporates forward-looking information in respect of PD. The Group has performed historical analysis and identified the key economic variable impacting credit risk and ECL for loan portfolio. In 2019, the Group enlarged the economic variable scope by adding GDP into consideration. Back testing has been performed to prove these two variables are the most relevant:

Key economic variable	**Scenario**	**2019**	2018
CPI (Consumer Price Index)	Base	**3.09%-3.44%**	1.95%-2.52%
	Upside	**3.62%-4.07%**	2.10%-2.70%
	Downside	**2.11%-2.57%**	1.70%-2.40%
GDP (Gross Domestic Product)	Base	**5.77%-6.14%**	N/A
	Upside	**5.94%-6.44%**	N/A
	Downside	**5.55%-6.04%**	N/A

The Group uses economic variable assumptions when determine expected CPI and GDP. The weightings assigned to each economic scenario at December 31, 2019 were as follows:

	Base	**Upside**	**Downside**
CPI	**80%**	**10%**	**10%**
GDP	**80%**	**10%**	**10%**

Sensitivity analysis

The most significant assumption affecting the ECL allowance is CPI and GDP.

Set out below are the changes to the ECL as at December 31, 2019 that would result by varying CPI and GDP by 0.5 standard deviation ("σ") respectively. In each of the base, upside and downside scenarios:

		GDP	
	-0.5 σ	**No change**	**+0.5 σ**
	RMB'000	***RMB'000***	***RMB'000***
-0.5 σ	**74,326**	**35,325**	**—**
CPI No change	**35,325**	**—**	**(32,243)**
+0.5 σ	**—**	**(32,243)**	**(62,663)**

The ECL allowance is sensitive to the weightings assigned to each economic scenario.

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(3) Credit risk (continued)

Measurement of ECL (continued)

Sensitivity analysis (continued)

For CPI and GDP, assuming a 10% increase in the weight of the upside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL on December 31, 2019 is reduced by RMB13,078,000; assuming a 10% increase in the weight of the downside scenario and a 10% reduction in the weight of the base scenario, the Group's ECL is increased by RMB22,238,000.

Maximum exposure to credit risk before collateral held or other credit enhancements

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Cash and cash equivalents	**2,169,522**	1,050,111
Restricted cash	**264,584**	127,902
Contract assets	**523,022**	154,143
Stage 1	**517,510**	153,412
Stage 2	**3,754**	515
Stage 3	**1,758**	216
Guarantee receivables	**621,248**	206,146
Stage 1	**616,053**	205,034
Stage 2	**3,558**	775
Stage 3	**1,637**	337
Other assets	**598,515**	704,672
Total	**4,176,891**	2,242,974

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(4) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price to meet the Group's obligations as they become due. The liquidity of the assets will affect the Group's ability for paying the due debt. The Group is responsible for its own cash flow prediction and continues to monitor both short-term and long-term funding needs, in order to maintain sufficient reserves of cash and marketable securities available at any time.

The table below presents the cash flows receivable and payable by the Group under financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

	As at December 31, 2019				
	On demand	Overdue	Within 1 year	1–5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Cash and cash equivalents	2,146,477	—	23,065	—	2,169,542
Restricted cash	—	—	37,867	227,577	265,444
Loans to customers at fair value through profit or loss	—	506,965	11,053,611	626,822	12,187,398
Financial assets at fair value through profit or loss	280	—	—	—	280
Guarantee receivables	—	15,093	593,497	12,658	621,248
Other financial assets	—	—	426,874	174,414	601,288
Total financial assets	2,146,757	522,058	12,134,914	1,041,471	15,845,200
Liabilities					
Borrowings	—	—	(8,847,103)	(1,001,245)	(9,848,348)
Senior notes	—	—	(75,884)	(727,792)	(803,676)
Lease liabilities	—	—	(16,445)	(10,867)	(27,312)
Guarantee liabilities	—	—	(593,659)	(129,958)	(723,617)
Other financial liabilities	—	—	(187,439)	(77,547)	(264,986)
Total financial liabilities	—	—	(9,720,530)	(1,947,409)	(11,667,939)
Net value	2,146,757	522,058	2,414,384	(905,938)	4,177,261

4 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(4) *Liquidity risk* (continued)

	As at December 31, 2018				
	On demand	Overdue	Within 1 year	1–5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Cash and cash equivalents	990,092	—	60,913	—	1,051,005
Restricted cash	—	—	16,988	111,361	128,349
Loans to customers at fair value through profit or loss	—	485,282	8,176,706	2,801,483	11,463,471
Guarantee receivables	—	3,906	199,059	3,181	206,146
Other financial assets	29,154	—	526,171	138,847	694,172
Total financial assets	1,019,246	489,188	8,979,837	3,054,872	13,543,143
Liabilities					
Borrowings	—	—	(7,458,273)	(1,352,746)	(8,811,019)
Guarantee liabilities	—	—	(199,483)	(5,013)	(204,496)
Other financial liabilities	(1,701)	—	(169,581)	(59,539)	(230,821)
Total financial liabilities	(1,701)	—	(7,827,337)	(1,417,298)	(9,246,336)
Net value	1,017,545	489,188	1,152,500	1,637,574	4,296,807

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including capital reserve on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Group's shares. In the opinion of the directors of the Group, the Group's capital risk is low.

4 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value measurement of financial instruments

Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at December 31, 2019 and December 31, 2018 on a recurring basis:

	Valuation techniques and key input	**As at December 31, 2019**			
		Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Assets					
Loans to customers at fair value through profit or loss	Discounted cash flow method (i)	—	—	9,457,673	9,457,673
Financial assets at fair value through profit or loss	Quoted market price	280	—	—	280
		280	—	9,457,673	9,457,953

	Valuation techniques and key input	As at December 31, 2018			
		Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets					
Loans to customers at fair value through profit or loss	Discounted cash flow method (i)	—	—	8,863,246	8,863,246
		—	—	8,863,246	8,863,246

(i) Future cash flows are estimated based on key assumptions including growth rate and weighted average cost of capital.

4 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value measurement of financial instruments (continued)

Fair value hierarchy (continued)

The following table presents the changes in level 3 asset instruments for the year ended December 31, 2018 and 2019:

	RMB'000
At January 1, 2019	**8,863,246**
Additions	**18,270,541**
Disposals	**(15,617,632)**
Gains or losses recognized in profit or loss	**(2,058,482)**
At December 31, 2019	**9,457,673**
At January 1, 2018	11,394,328
Additions	16,701,203
Disposals	(18,100,867)
Gains or losses recognized in profit or loss	(1,131,418)
At December 31, 2018	8,863,246

There were no transfers between the levels of the fair value hierarchy in the year ended December 31, 2019. There were no changes made to any of the valuation techniques applied as at December 31, 2019.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at December 31, 2019.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

4 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value measurement of financial instruments (continued)

Fair value measurements using significant unobservable inputs

The Group has a team that performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values. The team manages the valuation exercise of the investments on a case by case basis. The team would use valuation techniques to determine the fair value of the Group's level 3 instruments once every month. External valuation experts will be involved when necessary.

As at December 31, 2019, the level 3 instruments were mainly loans to customers at fair value through profit or loss. As the loans to customers are not traded in an active market, its fair value have been determined using discounted cash flows. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, estimate of discount rate, and other exposure etc. Discount rate was estimated by weighted average cost of capital as at each reporting date. The managements estimated the risk-free interest rate based on the yield of China Government Bond with a maturity life equal to period from the respective reporting date to expected cash flow date.

The table below illustrates the impact to profit/(loss) before income tax for the year ended December 31, 2019, if the discount rate used had increased/decreased by 100 basis points with all other variables held constant.

	Expected changes in profit/(loss) before income tax For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
+100 basis points	**(31,074)**	(49,457)
-100 basis points	**31,146**	50,633

The Group also has a number of financial instruments which are not measured at fair value in the statement of financial position such as guarantee receivables, other receivables, and other payables. For these instruments, the fair values are not materially different to their carrying amounts.

5 NET INTEREST TYPE INCOME

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Interest type income		
Loans to customers at fair value through profit or loss	**2,642,081**	2,930,339
Less: interest expenses		
Payable to trust plan holders	**(728,433)**	(817,766)
Borrowings from corporations	**(77,578)**	(116,458)
Senior notes	**(44,438)**	—
Borrowings from individuals	**(8,153)**	(33,174)
Secured borrowings	**(13)**	(93)
Others	**(3,559)**	(7,279)
	(862,174)	(974,770)
Net interest type income	**1,779,907**	1,955,569

6 LOAN FACILITATION SERVICE FEES

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Upfront loan facilitation service fees	**1,119,343**	230,560
Post loan facilitation service fees	**128,034**	39,272
	1,247,377	269,832

Note: The unsatisfied performance obligations as at December 31, 2019 are RMB90,976,000. Management expects that 97% of the transaction price allocated to the unsatisfied contracts as at December 31, 2019 will be recognized as revenue within the next 12 months.

7 OTHER INCOME

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Membership fees and referral fees (i)	**794,581**	351,653
Penalty and service charges	**327,228**	240,832
Losses from guarantee	**(318,381)**	(160,436)
Others	**33,645**	79,133
	837,073	511,182

(i) The unsatisfied performance obligations as at December 31, 2019 are RMB849,000 (December 31, 2018: RMB50,492,000). Management expects that 100% of the transaction price allocated to the unsatisfied contracts as at December 31, 2019 will be recognized as revenue within the next 6 months.

8 EXPENSES BY NATURE

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Loan origination and servicing expenses	**(593,525)**	(580,377)
Employee benefit expenses *(Note 9)*	**(520,559)**	(615,745)
Depreciation and amortization	**(65,213)**	(31,430)
Professional service fees	**(63,561)**	(83,758)
Office expenses	**(48,950)**	(39,966)
Tax and surcharge	**(22,619)**	(12,827)
Branding expenses	**(6,066)**	(16,242)
Audit remuneration		
— Audit service fees	**(5,000)**	(9,406)
— Non-audit service fees	**(154)**	(792)
Office rental	**—**	(57,534)
Others	**(13,907)**	(20,048)
Total origination and servicing expenses, sales and marketing expenses, general and administrative expenses, and research and development expenses	**(1,339,554)**	(1,468,125)

9 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Wages, salaries and bonuses	**(171,573)**	(257,467)
Pension costs — defined contribution plans	**(18,473)**	(39,151)
Other social security costs, housing benefits and other employee benefits	**(27,095)**	(43,517)
Share-based compensation expenses	**(303,418)**	(275,610)
	(520,559)	(615,745)

10 DIRECTORS' REMUNERATION

The remuneration of every director for the year ended December 31, 2019 is set out as follows:

	Director's fee	Salaries, wages and bonuses	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Share-based compensation expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
Liu Sai Wang Stephen (a)	2,657	527	—	13	185,912	189,109
Liu Sai Keung Thomas (b)	2,446	527	—	19	1,857	4,849
Non-Executive Directors						
Ma Ting Hung (c)	—	—	—	1,647	15,513	17,160
Chen Penghui (d)	211	—	—	—	—	211
Seek Ngee Huat (e)	211	—	—	—	—	211
Wu Chak Man (f)	211	—	—	—	—	211
	5,736	1,054	—	1,679	203,282	211,751

The remuneration of every director for the year ended December 31, 2018 is set out as follows:

	Director's fee	Salaries, wages and bonuses	Pension costs — defined contribution plan	Other social security costs, housing benefits and other employee benefits	Share-based compensation expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
Liu Sai Wang Stephen (a)	1,623	278	—	9	173,950	175,860
Liu Sai Keung Thomas (b)	1,464	278	—	13	1,251	3,006
Non-Executive Directors						
Ma Ting Hung (c)	—	—	—	1,553	14,811	16,364
Chen Penghui (d)	107	—	—	—	—	107
Seek Ngee Huat (e)	107	—	—	—	—	107
Wu Chak Man (f)	107	—	—	—	—	107
	3,408	556	—	1,575	190,012	195,551

10 DIRECTORS' REMUNERATION (continued)

No director's termination benefit subsisted at the end of the year or at any time during the year.

No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the year or at any time during the year.

No loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office at the end of the year or at any time during the year.

Notes:

(a) Appointed as director of the Company in September 2007;

(b) Appointed as director of the Company in November 2017;

(c) Appointed as director of the Company in September 2007;

(d) Appointed as director of the Company in June 2018;

(e) Appointed as director of the Company in June 2018;

(f) Appointed as director of the Company in June 2018.

11 FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2018 and 2019 include 3 and 2 directors whose emoluments are reflected in the analysis shown in Note 10. All of the five highest paid individuals have not received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office for each of the years ended December 31, 2018 and 2019. The emoluments payable to the remaining 2 and 3 individuals for each of the years ended December 31, 2018 and 2019 are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**3,116**	1,528
Pension costs — defined contribution plans	**98**	50
Other social security costs, housing benefits and other employee benefits	**349**	47
Share-based compensation expenses	**48,546**	35,480
	52,109	37,105

11 FIVE HIGHEST PAID INDIVIDUALS (Continued)

The emoluments fell within the following bands:

	Year ended December 31, 2019	2018
Nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	—	—
HK$1,500,001 to HK$2,000,000	—	—
Over HK$2,000,000	3	2
	3	2

12 CREDIT IMPAIRMENT LOSSES

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Cash and cash equivalents	(1)	3
Restricted cash	(34)	1
Contract assets	(146,069)	(17,293)
Guarantee receivables	(165,586)	(35,998)
Other assets	2,589	(1,061)
	(309,101)	(54,348)

13 OTHER (LOSSES)/GAINS, NET

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Finance cost, net (i)	(4,632)	(19,366)
Gain from financial assets at fair value through profit or loss	1,781	1,360
Gain from disposal of subsidiary	—	35,589
	(2,851)	17,583

(i) Finance cost, net

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Exchange losses	(10,261)	(25,718)
Interest expense on lease liabilities *(Note 23)*	(2,548)	N/A
Bank charges	(1,848)	(999)
Bank interest income	12,439	7,351
Others	(2,414)	—
	(4,632)	(19,366)

14 INCOME TAX EXPENSE

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Current income tax	**(145,837)**	(185,241)
Deferred income tax	**46,296**	106,709
	(99,541)	(78,532)

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profit/(loss) of the consolidated entities as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Profit/(Loss) before income tax:	**164,331**	(948,421)
Tax calculated at PRC statutory income tax rate of 25%	**(41,083)**	237,105
Tax effects of:		
— Expenses not deductible for income tax purpose	**(76,537)**	(72,881)
Share-based compensation	**(75,854)**	(68,902)
Others	**(683)**	(3,979)
— Effect from fair value change of preferred shares	**—**	(261,789)
— Differential income tax rates applicable to the Company and subsidiaries (i)	**14,628**	19,266
— Revenue not subject to income tax	**—**	4,125
— Super deduction for research and development expenses	**4,724**	9,061
— No recognition of deferred tax assets on tax losses	**(1,273)**	(13,419)
Income tax expense	**(99,541)**	(78,532)

(i) The Group's main applicable taxes and tax rates are as follows:

British Virgin Islands

Enterprise incorporated in the British Virgin Islands (BVI) is not subject to tax on income or capital gains.

Cayman Islands

Our Company re-domiciled from the BVI and continue into the Cayman Islands prior to Listing. The Company will be governed by the laws of the Cayman Islands after completion of the continuation. Accordingly the Company is not subject to income tax under Cayman Companies Law.

14 INCOME TAX EXPENSE (Continued)

(i) The Group's main applicable taxes and tax rates are as follows: (Continued)

China

The PRC Enterprise Income Tax Law (the "**EIT Law**") applies an income tax rate of 25% to all enterprises but grants preferential tax treatments to High and New Technology Enterprises ("**HNTEs**"). Under these preferential tax treatments, HNTEs can enjoy a preferential income tax rate of 15% for three years, but need to re-apply after the end of the three-year period. Vision Credit Financial Technology Company, an indirect wholly-owned subsidiary of the Company, qualified as HNTE under the EIT law in October 23, 2014. In November 2017, Vision Credit Financial Technology Company was further approved as HNTE and will continue to enjoy the preferential income tax rate of 15% from 2018 to 2020. Therefore, Vision Credit Financial Technology Company was entitled to a preferential income tax rate of 15% for the years ended December 31, 2019.

Hong Kong

Enterprise incorporated in Hong Kong ("**HK**") is subject to Corporate Income Tax rate of 16.5%.

Withholding Tax on Undistributed Profits

Under the EIT Law, dividends, interests, rent, royalties and gains on transfers of property payable by a foreign-invested enterprise in the PRC to its foreign lender who is a non-resident enterprise will be subject to withholding tax of 10%, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with the PRC that provides for a reduced rate of withholding taxes. The withholding tax rate is 5% for the parent company incorporated in certain qualified jurisdictions if the parent company is the beneficial owner of the dividend and approved by the PRC tax authority to enjoy the preferential tax benefit.

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on withholding tax was accrued as at the end of each reporting period.

15 EARNINGS/(LOSS) PER SHARE

Weighted average number of shares used as the denominator

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Earnings/(Loss) attributable to owners of the Company	**64,790**	(1,026,953)
Weighted average number of ordinary shares for calculation of the basic earnings per share *('000)*	**494,987**	350,239
Weighted average number of ordinary shares for calculation of the diluted earnings per share *('000)*	**502,738**	350,239
Basic earnings/(loss) per share *(RMB)*	**0.13**	(2.93)
Diluted earnings/(loss) per share *(RMB)*	**0.13**	(2.93)

15 EARNINGS/(LOSS) PER SHARE (Continued)

(a) Basic earnings/(loss) per share is calculated by dividing the profit/(loss) of the Group attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

(b) For year ended December 31, 2019, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and share awards granted by the Company (collectively forming the denominator for computing diluted earnings per share). No adjustment is made to earnings (numerator).

	Year ended December 31, 2019 Number of ordinary shares *('000)* (Unaudited)
Weighted average number of ordinary shares for calculation of the basic earnings per share	**494,987**
Adjustments for share options and share awards granted	**7,751**
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	**502,738**

(c) For the year ended December 31, 2018, the Group had two categories of potential ordinary shares, the share options awarded (Note 33) and convertible redeemable preferred shares. As the Group incurred loss for year ended December 31, 2018, the potential ordinary shares were not included in the calculation of diluted loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the year ended December 31, 2018 was the same as basic loss per share.

16 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Cash at bank	**1,130,115**	839,324
Cash held through platform (i)	**1,039,409**	210,788
Less: ECL allowance	**(2)**	(1)
	2,169,522	1,050,111

(i) The balance represents deposits of the Group held by third party payment companies.

16 CASH AND BANK BALANCES (Continued)

(b) Restricted cash

	As at December 31, 2019 RMB'000	2018 RMB'000
Pledged cash in banks	**264,637**	127,921
Less: ECL allowance	**(53)**	(19)
	264,584	127,902

Restricted cash is pledged in designated bank accounts which are constrained by the loan facilitation service contracts between banks and the Group. According to the contracts, the Group cannot withdraw restricted cash without the permission of banks.

17 LOANS TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of loans is as follows:

	As at December 31, 2019 RMB'000	2018 RMB'000
Unsecured	**8,822,968**	7,288,408
Pledged	**634,705**	1,574,838
	9,457,673	8,863,246

For the year ended December 31, 2019, all loans to customers originated are personal loans made to individual borrowers with original term up to 24 months. The annualized interest rates of these loans ranged between 8.8% to 35.4%.

The Group has established business relationship with the trust plans which were administered by third-party trust companies. The trust plans invested solely in loans on the Group's platform to provide returns to the beneficiaries of the trust plans. The Group entered into the agreements that the principal of the trust senior tranche holders and their expected return were fully guaranteed by the Group. Meanwhile, all the secondary beneficial right was taken by the Group, and the Group was entitled to the residual profits of the trusts. The Group holds variable interest in the trust plans. In addition, since the trust plans only invest in loans recommended by the Group, the Group has power to direct the activities of the trust plans. As a result, the Group is considered the primary beneficiary of the trust plans and consolidated the trust plans' assets, liabilities, results of operations and cash flows.

17 LOANS TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Contractual maturities of loans to customers at fair value through profit and loss:

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Within 1 year (including 1 year)	**8,028,905**	5,026,719
1 to 2 years (including 2 years)	**260,124**	716,378
2 to 5 years (including 5 years)	**1,168,644**	3,120,149
	9,457,673	8,863,246

Remaining period at the reporting date to the contractual maturity date of loans to customers at fair value through profit and loss:

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Overdue	**506,965**	485,282
Within 1 year (including 1 year)	**8,256,618**	5,261,049
1 to 2 years (including 2 years)	**363,427**	1,579,993
2 to 5 years (including 5 years)	**330,663**	1,536,922
	9,457,673	8,863,246

18 CONTRACT ASSETS

The Group uses the expected-cost-plus-a-margin approach to determine its best estimate of selling prices of the different deliverables as the basis for allocation. The service fee allocated to loan facilitation is recognized as revenue upon execution of loan agreements between investors and borrowers. When the fee allocated to the loan facilitation service is more than the cash received, a "Contract Asset" was recognized as follows:

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Contract assets	**655,815**	174,039
Less: ECL allowance	**(132,793)**	(19,896)
	523,022	154,143

18 CONTRACT ASSETS (Continued)

Movement of gross carrying amount

Contract assets	**Year ended December 31, 2019** **Stage 1** *RMB'000*	**Stage 2** *RMB'000*	**Stage 3** *RMB'000*	**Total** *RMB'000*
Opening balance at January 1, 2019	**162,776**	**5,528**	**5,735**	**174,039**
New financial assets originated or purchased	**650,352**	**—**	**—**	**650,352**
Transfer for the year:				
From stage 1 to stage 2	**(43,084)**	**43,084**	**—**	**—**
From stage 1 to stage 3	**(65,776)**	**—**	**65,776**	**—**
From stage 2 to stage 1	**3**	**(3)**	**—**	**—**
From stage 2 to stage 3	**—**	**(5,283)**	**5,283**	**—**
From stage 3 to stage 1	**2**	**—**	**(2)**	**—**
Asset derecognised (including final repayment)	**(132,921)**	**(242)**	**(8,447)**	**(141,610)**
Asset written off	**—**	**—**	**(26,966)**	**(26,966)**
Ending balance	**571,352**	**43,084**	**41,379**	**655,815**

Contract assets	Year ended December 31, 2018 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Opening balance at January 1, 2018	95,945	3,928	8,918	108,791
New financial assets originated or purchased	177,399	—	—	177,399
Transfer for the year:				
From stage 1 to stage 2	(5,527)	5,527	—	—
From stage 1 to stage 3	(18,791)	—	18,791	—
From stage 2 to stage 1	4	(4)	—	—
From stage 2 to stage 3	—	(2,609)	2,609	—
Asset derecognised (including final repayment)	(86,254)	(1,314)	(4,046)	(91,614)
Asset written off	—	—	(20,537)	(20,537)
Ending balance	162,776	5,528	5,735	174,039

18 CONTRACT ASSETS (Continued)

Movement of ECL allowance

ECL allowance	Year ended December 31, 2019 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Opening balance at January 1, 2019	(9,364)	(5,013)	(5,519)	(19,896)
New financial assets originated or purchased	(47,775)	—	—	(47,775)
Transfer for the year:				
From stage 1 to stage 2	3,165	(39,196)	—	(36,031)
From stage 1 to stage 3	4,832	—	(63,141)	(58,309)
From stage 2 to stage 1	—	2	—	2
From stage 2 to stage 3	—	4,806	(5,071)	(265)
From stage 3 to stage 1	—	—	2	2
Asset derecognised (including final repayment)	9,764	220	8,109	18,093
Changes to risk parameters (model inputs)	(14,464)	(149)	(967)	(15,580)
Asset written off	—	—	26,966	26,966
Ending balance	(53,842)	(39,330)	(39,621)	(132,793)

ECL allowance	Year ended December 31, 2018 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Opening balance at January 1, 2018	(13,737)	(3,487)	(7,712)	(24,936)
New financial assets originated or purchased	(16,174)	—	—	(16,174)
Transfer for the year:				
From stage 1 to stage 2	504	(4,959)	—	(4,455)
From stage 1 to stage 3	1,713	—	(17,166)	(15,453)
From stage 2 to stage 1	—	4	—	4
From stage 2 to stage 3	—	2,341	(2,383)	(42)
Asset derecognised (including final repayment)	7,941	1,179	3,696	12,816
Changes to risk parameters (model inputs)	10,389	(91)	(2,491)	7,807
Asset written off	—	—	20,537	20,537
Ending balance	(9,364)	(5,013)	(5,519)	(19,896)

Note: Contract assets originated and derecognised or written off in the same year are not included in the above movements.

18 CONTRACT ASSETS (Continued)

Movement of ECL allowance (Continued)

ECL allowance	Year ended December 31, 2019 Stage 1 *RMB'000*	 Stage 2 *RMB'000*	 Stage 3 *RMB'000*	 Total *RMB'000*
ECL charge for the period	**(44,478)**	**(34,317)**	**(67,274)**	**(146,069)**

ECL allowance	Year ended December 31, 2018 Stage 1 *RMB'000*	 Stage 2 *RMB'000*	 Stage 3 *RMB'000*	 Total *RMB'000*
ECL charge for the period	4,373	(1,526)	(20,140)	(17,293)

Note: The Group receives upfront payments from borrowers at loan inception and subsequent payments over the term of the loan. Contract asset represents the Group's right to consideration in exchange for services that the Group has provided. A substantial majority of the Group's contract assets as at December 31, 2019 would be realized within the next 12 months as the weighted average term of the arrangements where the Group is not the loan originator were less than 12 months. The Group determined there is no significant financing component for its arrangements where the Group is not the loan originator.

19 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES

	As at December 31, 2019 *RMB'000*	 2018 *RMB'000*
Guarantee receivables	**760,973**	235,934
Less: ECL allowance	**(139,725)**	(29,788)
	621,248	206,146

A summary of the Group's guarantee receivables movement for the year ended December 31, 2019 and 2018 is presented below:

	Year ended December 31, 2019 *RMB'000*	 2018 *RMB'000*
Guarantee receivables		
Opening balance	**206,146**	130,073
Changes on initial application of IFRS 9	**N/A**	(15,209)
Addition arising from new business	**1,426,080**	430,777
ECL	**(165,586)**	(35,998)
Reversal due to early repayment	**(80,384)**	(50,172)
Payment received from borrowers	**(765,008)**	(253,325)
Ending balance	**621,248**	206,146

19 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (Continued)

Movement of gross carrying amount

Guarantee receivables	**Year ended December 31, 2019** **Stage 1** ***RMB'000***	**Stage 2** ***RMB'000***	**Stage 3** ***RMB'000***	**Total** ***RMB'000***
Opening balance at January 1, 2019	**216,453**	**9,077**	**10,404**	**235,934**
New financial assets originated or purchased	**766,796**	**—**	**—**	**766,796**
Transfer for the year:				
From stage 1 to stage 2	**(40,247)**	**40,247**	**—**	**—**
From stage 1 to stage 3	**(72,809)**	**—**	**72,809**	**—**
From stage 2 to stage 3	**—**	**(8,696)**	**8,696**	**—**
Asset derecognised (including final repayment)	**(187,925)**	**(405)**	**(10,891)**	**(199,221)**
Asset written off	**—**	**—**	**(42,536)**	**(42,536)**
Ending balance	**682,268**	**40,223**	**38,482**	**760,973**

Guarantee receivables	Year ended December 31, 2018 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Opening balance at January 1, 2018	127,833	2,601	2,704	133,138
New financial assets originated or purchased	232,574	—	—	232,574
Transfer for the year:				
From stage 1 to stage 2	(9,077)	9,077	—	—
From stage 1 to stage 3	(25,439)	—	25,439	—
From stage 2 to stage 1	1	(1)	—	—
From stage 2 to stage 3	—	(2,464)	2,464	—
Asset derecognised (including final repayment)	(109,439)	(136)	(31)	(109,606)
Asset written off	—	—	(20,172)	(20,172)
Ending balance	216,453	9,077	10,404	235,934

19 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (Continued)

Movement of ECL allowance

ECL allowance	Year ended December 31, 2019 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Opening balance at January 1, 2019	**(11,419)**	**(8,302)**	**(10,067)**	**(29,788)**
New financial assets originated or purchased	**(56,786)**	**—**	**—**	**(56,786)**
Transfer for the year:				
From stage 1 to stage 2	**2,981**	**(36,749)**	**—**	**(33,768)**
From stage 1 to stage 3	**5,392**	**—**	**(70,082)**	**(64,690)**
From stage 2 to stage 3	**—**	**7,940**	**(8,370)**	**(430)**
Asset derecognised (including final repayment)	**13,021**	**370**	**10,483**	**23,874**
Changes to risk parameters (model inputs)	**(19,404)**	**76**	**(1,345)**	**(20,673)**
Asset written off	**—**	**—**	**42,536**	**42,536**
Ending balance	**(66,215)**	**(36,665)**	**(36,845)**	**(139,725)**

ECL allowance	Year ended December 31, 2018 Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Opening balance at January 1, 2018	(13,555)	(2,281)	(2,438)	(18,274)
New financial assets originated or purchased	(18,464)	—	—	(18,464)
Transfer for the year:				
From stage 1 to stage 2	721	(8,132)	—	(7,411)
From stage 1 to stage 3	2,020	—	(23,778)	(21,758)
From stage 2 to stage 1	—	1	—	1
From stage 2 to stage 3	—	2,208	(2,303)	(95)
Asset derecognised (including final repayment)	8,689	122	29	8,840
Changes to risk parameters (model inputs)	9,170	(220)	(1,749)	7,201
Asset written off	—	—	20,172	20,172
Ending balance	(11,419)	(8,302)	(10,067)	(29,788)

Note: Guarantee receivables originated and derecognised or written off in the same year are not included in the above movements.

19 GUARANTEE RECEIVABLES AND GUARANTEE LIABILITIES (Continued)

Movement of ECL allowance (Continued)

ECL allowance	Year ended December 31, 2019 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
ECL Income statement charge for the period	**(54,796)**	**(28,363)**	**(82,427)**	**(165,586)**

ECL allowance	Year ended December 31, 2018 Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
ECL Income statement charge for the period	2,136	(6,021)	(32,113)	(35,998)

A summary of the Group's guarantee liabilities movement for the year ended December 31, 2019 and 2018 is presented below:

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Guarantee liabilities		
Opening balance	**204,496**	169,553
Changes on initial application of IFRS 9	**N/A**	65,299
Addition arising from new business	**1,426,080**	430,777
Release of the margin	**(99,793)**	(27,459)
ECL	**337,790**	137,723
Payouts during the year, net	**(1,144,956)**	(571,397)
Ending balance	**723,617**	204,496

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31, 2019 *RMB'000*	2018 *RMB'000*
Money market fund	**280**	—

21 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Set out below are the associates of the Group which, in the opinion of the directors, are material to the Group. The entities listed below have share capital consisting solely of ordinary shares, which is held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Investment date
Apass Holdings Company Limited	BVI	40.00	(i)	June 14, 2016
Shanghai COSCO Shipping Small Loan Co., Ltd	PRC	10.00	(ii)	December 28, 2017

(i) The Group invested in Apass Holdings Company Limited as a 40.00% shareholder for a consideration of HK$20,000,000. Apass Holdings Company Limited is a holding company controls an operational company in the PRC that provides data development services.

Key financial information of Apass Holdings Company Limited are listed below:

	As at December 31, 2019 RMB'000	2018 RMB'000
Assets	**46,500**	23,493
Equity	**41,332**	18,041
Net profit/(losses)	**23,156**	(10,795)

(ii) The Group invested in Shanghai COSCO Shipping Small Loan Co., Ltd. as a 10.00% shareholder for a consideration of RMB20,000,000. There are six members on the board of directors, of which one board member was appointed by the Group.

Key financial information of Shanghai COSCO Shipping Small Loan Co., Ltd. are listed below:

	As at December 31, 2019 RMB'000	2018 RMB'000
Assets	**208,254**	204,872
Equity	**203,466**	200,060
Net profit	**3,406**	60

The following table sets forth the Group's investments accounted for using the equity method movement activities:

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Balance at beginning of the year	**27,684**	30,784
Share of net profit/(loss)	**9,962**	(2,900)
Translation difference	**(216)**	(200)
Balance at end of the year	**37,430**	27,684

22 DEFERRED INCOME TAX

	As at December 31,			
	2019		2018	
	Deductible/ (taxable) temporary differences *RMB'000*	Deferred income tax assets/ (liabilities) *RMB'000*	Deductible/ (taxable) temporary differences *RMB'000*	Deferred income tax assets/ (liabilities) *RMB'000*
Deferred income tax liabilities				
Unrealized gains	(1,439,867)	(299,103)	(1,296,748)	(289,600)
Others	(2,756)	(689)	(2,756)	(689)
	(1,442,623)	(299,792)	(1,299,504)	(290,289)
Deferred income tax assets				
ECL allowance	475,308	118,827	165,836	41,459
Fair value change of loan to customers	2,285,951	563,120	2,375,424	578,094
Others	—	—	40,791	6,119
	2,761,259	681,947	2,582,051	625,672
Net deferred income tax assets	1,318,636	382,155	1,282,547	335,383

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities as follows:

	As at December 31,	
	2019 *RMB'000*	2018 *RMB'000*
Deferred income tax assets	468,256	413,117
Deferred income tax liabilities	(86,101)	(77,734)
Net deferred income tax assets	382,155	335,383

22 DEFERRED INCOME TAX (continued)

The movements of the deferred income tax account are as following:

	ECL allowance *RMB'000*	Fair value change *RMB'000*	Unrealized gains *RMB'000*	Others *RMB'000*	Total *RMB'000*
As at January 1, 2019	**41,459**	**578,094**	**(289,600)**	**5,430**	**335,383**
Adjustment on adoption of IFRS 16	**—**	**—**	**—**	**476**	**476**
Restated balance as at January 1, 2019	**41,459**	**578,094**	**(289,600)**	**5,906**	**335,859**
Recognized in the profit or loss	**77,368**	**(14,974)**	**(9,503)**	**(6,595)**	**46,296**
As at December 31, 2019	**118,827**	**563,120**	**(299,103)**	**(689)**	**382,155**
As at January 1, 2018	489,703	—	(338,500)	6,343	157,546
Adjustment on adoption of IFRS 9	(461,823)	532,951	—	—	71,128
Restated balance as at January 1, 2018	27,880	532,951	(338,500)	6,343	228,674
Recognized in the profit or loss	13,579	45,143	48,900	(913)	106,709
As at December 31, 2018	41,459	578,094	(289,600)	5,430	335,383

Deferred income tax assets are recognized for tax losses carrying forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As at December 31, 2019, the Group did not recognise deferred income tax liabilities in respect of tax losses and deductible temporary differences of approximately RMB1,273,000, respectively (As at December 31, 2018: RMB13,419,000).

23 LEASES

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	As at December 31, 2019 *RMB'000*	As at January 1, 2019 *RMB'000*
Right-of-use assets		
Buildings	25,824	49,336
Lease liabilities	25,197	49,179

Addition to the right-of-use assets during the year ended December 31, 2019 were RMB16,772,000. For adjustments recognised on adoption of IFRS 16 on January 1 2019, please refer to Note 2.2.

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Depreciation charge of right-of-use assets		
Buildings	34,702	N/A
Interest expense (included in other losses)	2,548	N/A
Expense relating to leases of low-value assets (included in origination and servicing expenses; general and administrative expenses; research and development expenses; sales and marketing expenses)	5,631	N/A

The total cash outflow for leases in 2019 was RMB36,768,000.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

24 INTANGIBLE ASSETS

	Software *RMB'000*
Cost	
As at January 1, 2019	**24,268**
Additions	**8,114**
As at December 31, 2019	**32,382**
Accumulated amortisation	
As at January 1, 2019	**(7,454)**
Amortisation charge for the year	**(2,753)**
As at December 31, 2019	**(10,207)**
Net book value	
As at December 31, 2019	**22,175**
Cost	
As at January 1, 2018	24,086
Additions	5,865
Disposals	(5,683)
As at December 31, 2018	24,268
Accumulated amortisation	
As at January 1, 2018	(10,598)
Amortisation charge for the year	(2,539)
Disposals	5,683
As at December 31, 2018	(7,454)
Net book value	
As at December 31, 2018	16,814

There is no indication that intangible assets have suffered an impairment loss during the year ended December 31, 2019.

25 PROPERTY AND EQUIPMENT

	Flats RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
As at January 1, 2019	11,934	4,350	6,415	56,653	30,038	752	110,142
Additions	—	—	851	15,493	—	3,560	19,904
Disposals	—	(819)	(595)	(3,706)	(1,164)	—	(6,284)
Transfers	—	—	—	—	3,959	(3,959)	—
Foreign currency translation reserve	—	—	42	—	42	—	84
As at December 31, 2019	11,934	3,531	6,713	68,440	32,875	353	123,846
Accumulated depreciation							
As at January 1, 2019	(2,485)	(1,876)	(3,935)	(28,685)	(14,095)	—	(51,076)
Depreciation charge for the year	(597)	(744)	(887)	(15,927)	(9,603)	—	(27,758)
Disposals	—	767	567	3,706	1,164	—	6,204
Foreign currency translation reserve	—	—	(17)	—	(3)	—	(20)
As at December 31, 2019	(3,082)	(1,853)	(4,272)	(40,906)	(22,537)	—	(72,650)
Net book value							
As at December 31, 2019	8,852	1,678	2,441	27,534	10,338	353	51,196

25 PROPERTY AND EQUIPMENT (continued)

	Flats *RMB'000*	Furniture and office equipment *RMB'000*	Motor vehicles *RMB'000*	Electronic equipment *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost							
As at January 1, 2018	11,934	6,571	6,420	49,571	45,566	1,694	121,756
Additions	—	47	977	13,533	—	3,973	18,530
Disposals	—	(1,142)	(47)	(438)	(6,228)	—	(7,855)
Transfers	—	—	—	—	4,546	(4,546)	—
Disposal of subsidiaries	—	(1,126)	(1,053)	(6,013)	(13,855)	(369)	(22,416)
Foreign currency translation reserve	—	—	118	—	9	—	127
As at December 31, 2018	11,934	4,350	6,415	56,653	30,038	752	110,142
Accumulated depreciation							
As at January 1, 2018	(1,888)	(2,144)	(3,471)	(21,017)	(18,881)	—	(47,401)
Depreciation charge for the year	(597)	(1,009)	(1,124)	(13,499)	(12,662)	—	(28,891)
Disposals	—	380	47	370	6,227	—	7,024
Disposal of subsidiaries	—	897	658	5,461	11,229	—	18,245
Foreign currency translation reserve	—	—	(45)	—	(8)	—	(53)
As at December 31, 2018	(2,485)	(1,876)	(3,935)	(28,685)	(14,095)	—	(51,076)
Net book value							
As at December 31, 2018	9,449	2,474	2,480	27,968	15,943	752	59,066

There is no indication that property and equipment have suffered an impairment loss during the year ended December 31, 2019.

26 OTHER ASSETS

	As at December 31, 2019 RMB'000	2018 RMB'000
Security deposits in financial institutions	**333,523**	280,887
Due from business partners	**184,177**	314,710
Funds held in third party payment companies	**54,208**	80,319
Prepaid expense	**48,737**	53,564
Rental deposits	**8,061**	9,679
Other deposits and receivables	**21,026**	24,461
	649,732	763,620
Less: ECL allowance	**(1,585)**	(4,174)
	648,147	759,446

27 BORROWINGS

	As at December 31, 2019 RMB'000	2018 RMB'000
Payable to trust plan holders	**8,637,946**	6,952,645
Borrowings from corporations (i)	**598,383**	1,077,789
Borrowings from individuals	**—**	139,124
Secured borrowings	**—**	666
	9,236,329	8,170,224
Denominated in:		
RMB	**9,236,329**	7,838,730
HKD	**—**	313,820
USD	**—**	17,674
	9,236,329	8,170,224

(i) Borrowings from corporations were mainly from third-party companies. The interest rates of borrowings from corporations were 6.25%~12.00% which were close to the market interest rate. The terms of borrowings from corporations are mainly within 1 year.

27 BORROWINGS (continued)

27.1 Security of borrowings

	As at December 31, 2019 RMB'000	2018 RMB'000
Secured		
Secured borrowings	—	666
Unsecured		
Payable to trust plan holders	8,637,946	6,952,645
Borrowings from corporations	598,383	1,077,789
Borrowings from individuals	—	139,124
	9,236,329	8,169,558
Total borrowings	9,236,329	8,170,224

27.2 The following table sets forth the effective interest rates of borrowings

	As at December 31, 2019	2018
Payable to trust plan holders	6.80%~12.50%	7.03%~15.00%
Borrowings from corporations	6.25%~12.00%	6.25%~10.50%
Borrowings from individuals	—	10.00%
Secured borrowings	—	6.18%

27.3 Contractual maturities of borrowings

	As at December 31, 2019 RMB'000	2018 RMB'000
Within 1 year	3,721,399	4,054,230
Between 1 and 2 years	4,903,920	4,065,760
Between 2 and 5 years	611,010	50,234
	9,236,329	8,170,224

27.4 Borrowings by repayment schedule

	As at December 31, 2019 RMB'000	2018 RMB'000
Within 1 year	8,382,699	6,923,744
Between 1 and 2 years	626,210	1,196,910
Between 2 and 5 years	227,420	49,570
	9,236,329	8,170,224

28 SENIOR NOTES

On June 21, 2019, the Company issued 2-year senior notes with an aggregate principal amount of US$100 million on the Stock Exchange, which will mature on June 20, 2021, unless earlier redeemed pursuant to the terms thereof. The coupon rate of the senior notes is 11% per annum, payable semi-annually in arrears on June 20 and December 20 of each year, beginning on December 20, 2019. From the date of issuance, guarantees will be provided by Vision Credit Limited and Asia Jumbo Group Limited, which are wholly owned subsidiaries of the Company.

The Notes are senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes. The Notes are at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of the Company. The Notes are also guaranteed by certain subsidiaries of the Company on a senior basis, subject to certain limitations, but they are effectively subordinated to all existing and future obligations of the subsidiaries of the Company which are not providing guarantees, and to all existing and future secured obligations of the Company to the extent of the collateral securing such obligations.

VCREDIT N2106 (Code: 5064)	***RMB'000***
As at December 31, 2018	**—**
Issuance	**660,602**
Accrued interest	**40,222**
Discount amortization	**6,630**
Interest expense paid	**(37,941)**
Exchange loss	**9,316**
As at December 31, 2019	**678,829**

29 OTHER LIABILITIES

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Other payables (i)	**313,197**	304,602
Contract liabilities (ii)	**849**	50,492
	314,046	355,094

29 OTHER LIABILITIES (continued)

(i) Other payables

	As at December 31, 2019 RMB'000	2018 RMB'000
Accrued service fees	**157,851**	97,929
Due to financial institutions	**102,800**	81,636
Deposits collected from borrowers	**32,849**	85,181
Employee benefit liability	**13,932**	11,615
Due to related parties	**—**	752
Others	**5,765**	27,489
	313,197	304,602

(ii) Contract liabilities

The contract liabilities as at December 31, 2019 are all membership fees received in advance (December 31, 2018: the same).

30 SHARE CAPITAL AND SHARE PREMIUM

	Number of Ordinary shares Shares'000	Share capital RMB'000	Share premium RMB'000
At January 1, 2019	**499,487**	**40,938**	**5,581,926**
Issuance of ordinary shares to employees *(Note 33)*	**277**	**25**	**2,122**
Shares repurchased and cancelled	**(561)**	**(50)**	**(3,032)**
At December 31, 2019	**499,203**	**40,913**	**5,581,016**
At January 1, 2018	180,705	394,462	—
Changes on initial application of par value	—	(379,823)	379,823
Shares issued upon Initial Public Offering	72,382	5,982	1,145,200
Conversion of preferred shares to ordinary shares	248,027	20,460	4,071,483
Issuance of ordinary shares to employees *(Note 33)*	133	12	1,000
Shares repurchased and cancelled	(1,760)	(155)	(15,580)
At December 31, 2018	499,487	40,938	5,581,926

31 TREASURY SHARES

	As at December 31, 2019		As at December 31, 2018	
	Shares'000	***RMB'000***	*Shares'000*	*RMB'000*
Treasury shares held under share award scheme	**(6,530)**	**(51,774)**	—	—

These shares are held by the VCREDIT No. 1 Share Award Scheme Trust for the purpose of share award scheme mentioned in Note 33.

Movements in treasury shares in 2019 are as follows:

	Year ended December 31,			
	2019		2018	
	Shares'000	***RMB'000***	*Shares'000*	*RMB'000*
Opening balance	**—**	**—**	—	—
Acquisition of shares by the VCREDIT No. 1 Share Award Scheme Trust	**(6,530)**	**(51,774)**	—	—
Ending balance	**(6,530)**	**(51,774)**	—	—

32 RESERVES

	Share option reserves	**Translation reserve**	**Other reserves**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
As at January 1, 2019	**304,945**	**75,510**	**—**	**380,455**
Changes on initial application of IFRS 16 *(Note 2.2)*	**—**	**—**	**—**	**—**
Restated balance as at January 1, 2019	**304,945**	**75,510**	**—**	**380,455**
Currency translation differences	**—**	**(485)**	**—**	**(485)**
Issuance of ordinary shares to employees	**(475)**	**—**	**—**	**(475)**
Share-based payment *(Note 9)*	**303,418**	**—**	**—**	**303,418**
As at December 31, 2019	**607,888**	**75,025**	**—**	**682,913**

32 RESERVES (Continued)

	Share option reserves *RMB'000*	Translation reserve *RMB'000*	Other reserves *RMB'000*	Total *RMB'000*
As at January 1, 2018	29,546	31,405	—	60,951
Changes on initial application of IFRS 9	—	—	(47,055)	(47,055)
Restated balance as at January 1, 2018	29,546	31,405	(47,055)	13,896
Currency translation differences	—	44,105	—	44,105
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	—	—	(14,109)	(14,109)
Conversion of preferred shares to ordinary shares	—	—	61,164	61,164
Issuance of ordinary shares to employees	(211)	—	—	(211)
Share-based payment *(Note 9)*	275,610	—	—	275,610
As at 1 December 31, 2018	304,945	75,510	—	380,455

33 SHARE-BASED PAYMENTS

Pre-IPO share option schemes

The Board approved the establishment of three pre-IPO share option schemes respectively on March 1, 2016 (the "**2016 ESOP**") and March 1, 2018 (the "**2017 ESOP I**" and the "**2017 ESOP II**", together with the 2016 ESOP, the "**Pre-IPO Share Option Schemes**"). The purpose of the Pre-IPO Share Option Schemes is to provide an incentive for the key employees, directors and consultants of the Group or such other employees to continue and improve their services with the Group and to improve the operating efficiency of the Group. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The overall limits on the number of underlying shares which may be issued pursuant to each of the Pre-IPO Share Option Schemes are shown in the table below.

Pre-IPO Share Option Schemes	**Number of shares issuable under each pre-IPO Share Option Scheme**
2016 ESOP	20,932,502
2017 ESOP I	46,516,997
2017 ESOP II	158,507,724

33 SHARE-BASED PAYMENTS (Continued)

Pre-IPO share option schemes (Continued)

The granted share options have a contractual maximum option period of five years and the exercise prices are US$0.8735, US$1.6123 and US$1.6123 per share for 2016 ESOP, 2017 ESOP I and 2017 ESOP II, respectively.

Except as provided otherwise in the grant letters or offered in any other form by the Board, the vesting dates and proportion of shares that will vest on each vesting date are shown in the table below.

	Vesting date	Proportion of shares
2016 ESOP	December 31, 2016	One-third
	December 31, 2017	One-third
	December 31, 2018	One-third
2017 ESOP I and 2017 ESOP II	May 9, 2019	One-third
	May 9, 2020	One-third
	May 9, 2021	One-third

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Exercise price in USD per share option			Number of share options ('000)		
	2016 ESOP	2017 ESOP I	2017 ESOP II	2016 ESOP	2017 ESOP I	2017 ESOP II
Outstanding balance as at January 1, 2019	**0.8735**	**1.6123**	**1.6123**	**20,800**	**46,517**	**26,115**
Lapsed	**0.8735**	**—**	**—**	**(3,658)**	**—**	**—**
Exercised (i)	**0.8735**	**—**	**—**	**(277)**	**—**	**—**
Outstanding balance as at December 31, 2019	**0.8735**	**1.6123**	**1.6123**	**16,865**	**46,517**	**26,115**

	Exercise price in USD per share option			Number of share options ('000)		
	2016 ESOP	2017 ESOP I	2017 ESOP II (ii)	2016 ESOP	2017 ESOP I	2017 ESOP II (ii)
Outstanding balance as at January 1, 2018	0.8735	—	—	20,933	—	—
Granted	—	1.6123	1.6123	—	46,517	158,508
Lapsed	—	—	—	—	—	(132,393)
Exercised	0.8735	—	—	(133)	—	—
Outstanding balance as at December 31, 2018	0.8735	1.6123	1.6123	20,800	46,517	26,115

33 SHARE-BASED PAYMENTS (Continued)

Pre-IPO share option schemes (Continued)

(i) For the year ended December 31, 2019, the proceeds of RMB25,000 (2018: RMB12,000) arising from the exercise of share options are credited to share capital.

(ii) Share options granted under the 2017 ESOP II are divided into three tranches, being Series A, Series B and Series C options, representing a total of 26,114,819 Shares, 29,016,466 Shares and 103,376,439 Shares, respectively. Each tranche of the options granted under the 2017 ESOP II shall vest upon the pre-listing market capitalization of the Group, immediately prior to listing of the Group on June 21, 2018 ("**Listing**"), meeting specified thresholds. Series A, series B and series C options shall vest if the pre-listing market capitalization of the Group immediately prior to Listing exceeds US$1.2 billion, US$1.6 billion and US$2.4 billion respectively. Such pre-listing market capitalization is calculated with reference to, among other things, the final offer price of the shares in the listing ("**Offer Shares**"), the number of Shares in issue and the number of Shares to be issued pursuant to the exercise of the 2016 ESOP and 2017 ESOP I. Based on the offer price of HK$20.00 per Offer Share, the Series B and Series C options granted pursuant to the 2017 ESOP II lapsed upon Listing.

Fair value of share options granted under the Pre-IPO share option schemes

The Group estimated the risk-free interest rate based on the yield of US treasury bonds with a maturity life equal to the option life of the share option. Volatility was estimated at the grant date based on average of historical volatilities of comparable companies with terms commensurate with the time to maturity of the share options. Dividend yield, exercise multiple and post-vesting forfeiture rate are based on management estimation at the grant date.

Based on fair value of the underlying ordinary share, the Group has used a binomial option-pricing model to determine the fair value of the share options as at the grant date. The weighted average fair values of 2017 ESOP I share options and 2017 ESOP II share options granted on May 2018 were US$0.5041 per share option. Key assumptions are set as below:

	May 2018
Option life (years)	5
Risk-free Interest rate	2.83%
Volatility	40.36%
Dividend yield	—

Share award scheme

On January 11, 2019, the Board approved a share award scheme, in which all employees (including without limitation any directors) of the Group will be entitled to participate. Pursuant to the scheme rules, shares will be acquired by the independent trustee from the market, at the cost of the Company and be held on trust for the selected participants until they vest. Vested shares will be transferred at no cost to the selected participants. The maximum number of shares to be awarded under the scheme throughout its duration is 24,974,369 shares.

The granted share awards have a contractual maximum vesting period of four years, one-fourth of shares will be vested each year.

33 SHARE-BASED PAYMENTS (Continued)

Fair value of share options granted under the Pre-IPO share option schemes (Continued)

Movement in the number of share awards for the year ended December 31, 2019 is as follows:

	Number of share awards *('000)*
Outstanding balance as at January 1, 2019	—
Granted	6,530
Outstanding balance as at December 31, 2019	6,530

The fair value of share awards at the grant dates, determined by reference to the market price of the ordinary share of the Company, is recognised over the vesting period as employee benefit expense.

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

The Group has significant transactions with the following related parties for the year ended December 31, 2019.

(a) Names and relationships with related parties

Name	Relationship
Liu Sai Wang Stephen	Executive Director
Liu Sai Keung Thomas	Executive Director
Chen Penghui	Non-executive Director
Ma Ting Hung	Non-executive Director
Seek Ngee Huat	Non-executive Director
Wu Chak Man	Non-executive Director
Dong Ludwig	Former Director
Ma Ting Yiu	Brother of Ma Ting Hung
Mok Mei Hing	Spouse of Dong Ludwig

The following transactions were carried out between the Group and its related parties. In the opinion of the directors of the Company, the related party transactions were carried out in the ordinary course of business and on arm's length terms negotiated between the Group and the respective related parties.

34 RELATED PARTY TRANSACTIONS (Continued)

(b) Borrowings from related parties

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Borrowings from related parties	—	90,249

(c) Payable to related parties

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Due to related parties	—	752

The amounts of payables to related parties mentioned above are non-trade in nature.

(d) Transactions with related parties

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Interest expenses	4,519	20,210

(e) Key management personnel compensations

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services are shown below:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Director's fee	5,737	3,408
Wages, salaries and bonuses	5,740	4,257
Pension costs-defined contribution plan	352	50
Other social security costs, housing benefits and other employee benefits	2,079	1,825
Share-based compensation expenses	254,150	225,653
	268,058	235,193

34 RELATED PARTY TRANSACTIONS (Continued)

(f) Senior management's emoluments

The senior management's emoluments fell within the following bands:

	Year ended December 31, 2019	2018
Nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	1	—
HK$1,500,001 to HK$2,000,000	—	—
Over HK$2,000,000	6	5
	7	5

35 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation from profit/(loss) before income tax to cash generated from operating activities:

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Profit/(Loss) before income tax	164,331	(948,421)
Adjustments for:		
Fair value change of loans to customers	2,058,482	1,130,058
Credit impairment losses	309,101	54,348
Depreciation and amortization	65,213	31,430
Loss on disposal of property and equipment, intangible assets	80	831
Share of net (profit)/loss of associates accounted for using the equity method	(9,962)	2,900
Gain from financial assets at fair value through profit or loss	(1,781)	(1,360)
Fair value loss of convertible redeemable preferred shares	—	1,047,156
Share-based payment	303,418	275,610
Interest expenses	862,174	974,770
Listing expenses	—	49,870
Disposal gain	—	(35,589)
Changes in operating assets and liabilities:		
(Increase)/Decrease in loans to customers	(2,652,909)	1,473,151
Increase in contract assets and guarantee receivables	(1,095,636)	(184,661)
(Increase)/Decrease in other operating assets	(86,150)	3,410,070
Increase/(Decrease) in other operating liabilities	559,077	(3,950,218)
Cash generated from operating activities	475,438	3,329,945

35 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Net Debt Reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**2,169,524**	1,050,112
Liquid investments (i)	**280**	—
Borrowings — repayable within one year (including overdraft)	**(8,382,699)**	(6,923,744)
Borrowings — repayable after one year	**(853,630)**	(1,246,480)
Senior notes	**(678,829)**	—
Lease liabilities	**(25,197)**	N/A
Net debt	**(7,770,551)**	(7,120,112)
Cash and liquid investments	**2,169,804**	1,050,112
Gross debt — fixed interest rates	**(9,940,355)**	(8,169,560)
Gross debt — variable interest rates	**—**	(664)
Net debt	**(7,770,551)**	(7,120,112)

(i) Liquid investments comprise current investments that are traded in an active market, being the Group's financial assets at fair value through profit or loss.

	Cash and cash equivalents RMB'000	Liquid investments RMB'000	Borrowings (non-current) RMB'000	Borrowings (current) RMB'000	Senior notes RMB'000	Lease liabilities RMB'000	Total RMB'000
As at December 31, 2018	1,050,112	—	(1,246,480)	(6,923,744)	—	N/A	(7,120,112)
Recognised on adoption of IFRS 16 *(Note 2.2)*	—	—	—	—	—	(49,179)	(49,179)
As at January 1, 2019	1,050,112	—	(1,246,480)	(6,923,744)	—	(49,179)	(7,169,291)
Foreign exchange adjustments	(57)	—	(9,643)	3,932	(9,316)	—	(15,084)
Cash flows	1,119,469	(1,501)	(1,341,377)	280,983	(622,661)	36,768	(528,319)
Other non-cash movements	—	1,781	1,743,870	(1,743,870)	(46,852)	(12,786)	(57,857)
As at December 31, 2019	2,169,524	280	(853,630)	(8,382,699)	(678,829)	(25,197)	(7,770,551)
As at January 1, 2018	568,196	110,545	(2,877,032)	(8,186,101)	—	N/A	(10,384,392)
Foreign exchange adjustments	(4,284)	—	(21,375)	(34,877)	—	N/A	(60,536)
Cash flows	486,200	(111,905)	(1,596,759)	4,545,920	—	N/A	3,323,456
Other non-cash movements	—	1,360	3,248,686	(3,248,686)	—	N/A	1,360
As at December 31, 2018	1,050,112	—	(1,246,480)	(6,923,744)	—	N/A	(7,120,112)

36 COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31, 2018 *RMB'000*
Within 1 year (inclusive)	46,963
1 to 2 years (inclusive)	17,140
More than 2 years	12,216
	76,319

Please refer to Note 2.2 for the impact on adoption of IFRS 16 in 2019.

37 DIVIDENDS

No dividend has been paid or declared by the Company or the companies now comprising the Group during the year ended December 31, 2019 (2018: Nil).

38 CONTINGENT LIABILITY

The Group did not have any contingent liability as at December 31, 2019 (December 31, 2018: Nil).

39 SUBSEQUENT EVENTS

Save as disclosed in the report, the following significant events took place subsequent to December 31, 2019:

Since early 2020, the outbreak of the novel coronavirus pneumonia ("**COVID-19 outbreak**") has spread across China and beyond, causing disruptions to business and economic activity. The Group will continue to monitor the development of the COVID-19 outbreak and market situation, assess its impact on the Group's operations and take measures to best protect the employees from being infected.

Furthermore, the ECL as at December 31, 2019 was estimated based on a range of forecast economic conditions as at that date. The impact on gross domestic product and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate under IFRS 9 in 2020.

40 COMPARATIVE FIGURES

Certain comparative figures have been reclassified, or restated, to conform to the current year's presentation.

41 STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

(a) Statement of financial position — the Company

	As at December 31,	
	2019	2018
	RMB'000	*RMB'000*
Assets		
Cash and cash equivalents	**47,199**	97
Investment in subsidiaries	**1,415,700**	1,377,309
Other assets	**2,155,722**	1,617,317
Total assets	**3,618,621**	2,994,723
Liabilities		
Senior notes	**678,829**	—
Total liabilities	**678,829**	—
Equity		
Share capital	**40,913**	40,938
Share premium	**5,581,016**	5,581,926
Treasury shares	**(51,774)**	—
Reserves	**934,183**	583,892
Accumulated losses	**(3,564,546)**	(3,212,033)
Total equity	**2,939,792**	2,994,723
Total liabilities and equity	**3,618,621**	2,994,723

The statement of financial position of the Company was approved by the Board of Directors on March 23, 2020 and was signed on its behalf by:

Ma Ting Hung	**Liu Sai Wang Stephen**
Director	*Director*

41 STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY (continued)

(b) Reserves movement of the Company

	Reserves *RMB'000*	Accumulated loss *RMB'000*
As at January 1, 2019	**583,892**	**(3,212,033)**
Loss for the year	**—**	**(352,513)**
Currency translation differences	**47,348**	**—**
Issuance of ordinary shares to employees	**(475)**	**—**
Share-based payment	**303,418**	**—**
As at December 31, 2019	**934,183**	**(3,564,546)**
As at January 1, 2018	80,895	(1,785,272)
Changes on initial application of IFRS 9	(47,055)	—
Restated balance as at January 1, 2018	33,840	(1,785,272)
Loss for the year	—	(1,365,597)
Currency translation differences	227,598	—
Change in fair value attributable to change in the credit risk of financial liability designated at fair value through profit or loss	(14,109)	—
Issuance of ordinary shares to employees	(211)	—
Conversion of preferred shares to ordinary shares	61,164	(61,164)
Share-based payment	275,610	—
As at December 31, 2018	583,892	(3,212,033)

Five Year Financial Summary

(in RMB mn)	2015	2016	2017	2018	**2019**
	For the Year Ended December 31,				
Total income	1,063	1,433	2,706	2,737	**3,864**
Operating (loss)/profit	(152)	(350)	347	102	**154**
Net (loss)/profit	(303)	(565)	(1,003)	(1,027)	**65**
Adjusted operating (loss)/profit (unaudited)	(151)	(330)	364	427	**458**
Adjusted net (loss)/profit (unaudited)	(155)	(275)	292	296	**368**

(in RMB mn)	2015	2016	2017	2018	**2019**
	As at December 31,				
Loans to customers at amortised cost	3,808	6,219	11,480	—	**—**
Loans to customers at fair value through profit or loss	N/A	N/A	N/A	8,863	**9,458**
Total assets	4,242	7,132	13,437	11,678	**14,289**
Total liabilities	4,411	7,941	14,946	8,893	**11,189**
Total (deficit)/equity	(169)	(809)	(1,509)	2,785	**3,100**
Adjusted total equity (unaudited)	669	751	1,534	2,785	**3,100**